

Austria	35000	Indonesia	80000	Philippines	80000
Bahrain	20000	Iran	80000	Poland	210000
Belgium	80000	Israel	80000	Portugal	80000
Cyprus	80000	Italy	80000	Saudi Arabia	80000
Czech	80000	Japan	80000	Singapore	80000
Denmark	80000	Korea	80000	Spain	80000
Egypt	80000	Lebanon	80000	Sweden	80000
France	80000	Luxembourg	80000	Switzerland	80000
Germany	80000	Netherlands	80000	Turkey	80000
Greece	80000	Norway	80000	UAE	80000
Hungary	80000	Poland	80000		
India	80000	Russia	80000		

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

NUCLEAR FUSION

Scientists toast historic success

Page 14

FT No. 31,605

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Monday November 11 1991

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World News Business Summary

Sweeping reforms planned by Mitterrand

French president François Mitterrand yesterday said he would propose big constitutional reforms next year, including a shorter presidential term of office and greater powers for parliament.

Speaking on French television, he said the proposals would be put to a referendum and hinted that he might resign before his term of office expires in 1995. Page 16

Sheikh falls on Dubrovnik
Yugoslav gunboats pounded the besieged Croatian port of Dubrovnik while federal troops increased their attacks on strategic towns. Croatia introduced press censorship. Page 16

Maxwell buried in Israel
Publisher Robert Maxwell was buried in Jerusalem. Amid continuing inquiries into his dramatic death at sea, a Spanish laboratory has been testing tissue samples for signs of poisoning. Page 16: Tissue test, Page 9: MCC dividend, Page 17: Loans, Page 20

Iraq attacks Kurds
Iraqi government troops attacked Kurdish guerrillas near the Kurdish city of Irbil. The attack came after Kurds ignored an Iraqi demand for them to withdraw.

Austrian polls
Austria's right-wing Freedom Party, which advocates ending immigration, became Vienna's second-biggest party after scoring a political coup in municipal elections.

Palestinians clash
Three gunmen were killed when two rival Palestinian groups clashed at Ain al-Hilweh refugee camp in southern Lebanon. In the occupied West Bank, thousands turned out to greet Palestinian delegates returning from the Madrid peace conference. Picture, Page 4

Haughey reshuffle
Irish prime minister Charles Haughey is expected to change his cabinet radically tomorrow after defeating a challenge to his leadership of the Fianna Fail party. Only 22 deputies out of 77 proved willing to vote openly against Mr Haughey. Page 16: Details, Page 2

Arrested for murder
One of 50 Vietnamese boat people deported from Hong Kong on Saturday was arrested for murder after landing in Hanoi.

Union curbs 'right'
UK government plans legislate more curbs on the power of trade unions could damage industrial relations, according to a survey of managers by the British Institute of Management. Employer-union accord, Page 3

Arms intercepted
Two boats carrying explosives and detonators were captured by the Indian navy off Tamil Nadu state. One of the boats, believed destined for Sri Lankan Tamil rebels, sank while it was being towed to Madras.

UN polling resumes
United Nations Security Council members will be polled informally today on their choices for a secretary-general to succeed Javier Perez de Cuellar, who wants to leave office at the end of the year.

Braided for air chaos
French officials forecast chaos at the country's airports today because of a continuing strike by air control technicians demanding extra staff and higher pay.

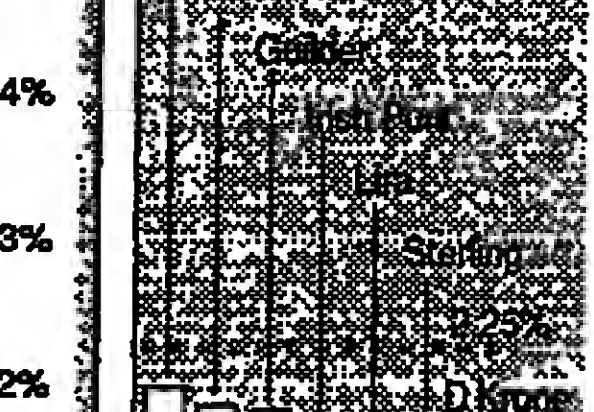
American held
German police have arrested a US military museum director in Frankfurt. His flat was found to contain 50 weapons, a crocodile in the bath and a python in a cupboard.

Cost of unit labour converges across Europe

German factory workers are paid no more than their British counterparts, when relative productivity is taken into account, according to a Financial Times study.

Unit wage costs in France and Italy are also almost the same. For every DM 1 of output in the four largest European economies in 1990, only 4 pence separated the high-cost and lowest-cost producers, at current exchange rates. Page 16

EUROPEAN Monetary System:
The D-Mark strengthened within the ERM last week on speculation that German interest rates will rise. Although the Bundesbank left rates unchanged at its council meeting, the D-Mark remained firm. The French franc was weak and the Bank of France was forced to support the franc, while the Italian lira slipped slightly after a small cut in money market rates. Currencies, Page 29



The chart shows the member currencies of the EMS on November 8, 1991. The chart compares the exchange rate of various currencies against the D-Mark. The currencies shown are: D-Mark (1.00), French Franc (6.56), Italian Lira (2036), Spanish Peseta (166.64), and British Pound (163.63).

SOVIET Union is in imminent danger of defaulting on official debts, and it may now be too late for the west to help, the chief executive of Deutsche Bank believes. Page 2

GENERAL MOTORS, US motor giant, estimates that it will have to raise a non-cash charge of \$1.6bn to \$2.4bn in order to comply with a new standard of accounting for non-pension employee retirement benefits, notably healthcare. Page 17

NORWAY is seeking to extend banking sector controls, including powers to force the winding-up of shares in troubled banks. If approved by parliament, the plan will move the sector a step closer to nationalisation. Page 18

TWA, heavily indebted airline controlled by Carl Icahn, unveiled after-tax losses of \$51.3m for the three months to end-September, despite the benefit of a \$27.3m gain on asset sales. A year ago, it reported a net \$14.7m deficit. Page 18

FIRST National Finance Corporation, loss-making UK consumer finance and commercial banking group, has sold £150m (\$267m) of loans to two continental banks and expects to make a further \$50m disposal in a month. Page 18

DAIHATSU Motor, Japanese motor group, reports a 45.9 per cent plunge in unconsolidated pre-tax profits to ¥3.5bn (\$28m) for the first half to September, due to the sluggish domestic minicar market. Page 18

BCCI 'stole over \$2bn from Abu Dhabi ruler'

THE Bank of Credit and Commerce International stole more than \$2bn out of the personal account of the ruler of Abu Dhabi, according to sources close to the investigation of the scandal-ridden bank, write Financial Times reporters.

The final figure might be as high as \$2.5bn, according to one investigator, who stressed that the accounts were still being pieced together. This would probably earn the theft a place in history as the largest on record from an individual.

Much of the money was used by BCCI to cover up enormous losses which had been incurred by the bank's treasury department in the

mid-1980s. But part of it also went to finance some of the hundreds of millions of dollars of fraudulent loans which were made by the bank, and which forced the regulators to shut it down in July.

Although the theft represents only a portion of Abu Dhabi's total losses in BCCI, it is thought by western investigators to be a major reason why Abu Dhabi is now intent on prosecuting the alleged perpetrators of BCCI's fraud itself. The emirate is currently holding 18 of BCCI's top executives in police custody, including two former chief executives, Sultan Nasser and Zafar Iqbal.

Sheikh Zayed bin Sultan al-Nahyan,

'This bank would bribe God' Page 8

who was a founder shareholder of BCCI, was long a close personal friend of the president, Agha Hasan Abedi, and is believed to have entrusted him with his entire share of Abu Dhabi's oil revenues over a period of several years during the early 1980s.

According to Price Waterhouse, the accountants who prepared the report on BCCI which led to its closure last July, the ruler also gave Abedi power of attorney over his financial affairs, though this has not been confirmed

by the Abu Dhabi side. Sheikh Zayed's share of the oil revenues was said by one source familiar with the Abu Dhabi ruling family's private financial affairs, to be 8 per cent. In dollar terms this would amount to between \$500m and over \$1bn a year, depending on the value of the oil price.

Abu Dhabi's oil revenues were placed with the National Bank of Abu Dhabi, the emirate's leading bank. It was from here that the ruler's share was transferred into accounts at ICIC, the offshoot of the BCCI group located in the Cayman Islands which looked after BCCI's largest Middle East clients. Although ICIC was not officially

owned by BCCI, it was closely controlled by Abedi and played a key role in the frauds, according to PW's allegations. Sheikh Zayed and members of his family also appear on BCCI's books as borrowers from the bank. The FT has seen a list compiled by BCCI of its major borrowers at the end of the first quarter of this year. Thus lists Sheikh Zayed as customer number 1800 and shows a loan balance of \$60.5m against a lending limit of just over \$200m. His son, crown prince Khalifa, appears as customer number 1200 and has a loan balance of \$88m against a limit of \$102.5m. However, Abu Dhabi officials say these loans are fictitious.

Bush makes concession to unblock trade talks

By William Dullforce in Geneva and David Gardner in Brussels

AN IMPORTANT concession by President George Bush over the cuts in European farm subsidies has unblocked the stalled Uruguay round of world trade talks, paving the way for an agreement.

According to senior officials at the five-year-old Uruguay trade round, the US president has intervened to reduce the targets set by Washington for the reduction in the subsidies paid to European farmers.

The breakthrough on this politically-charged issue is understood to have followed talks in The Hague between Mr Bush and Mr Jacques Delors, the EC Commission president, when it appeared that the gap between the two sides remained too big to close in spite of some progress.

"On Friday, we were not sure we could complete the round; on Saturday, it began to look likely again," one top-level negotiator said.

Mr Delors said after the Hague meeting that he was "for the first time, optimistic that we can get an agreement on the Uruguay round in the coming three months". The meeting had given a very important signal for the world economy, he said.

Washington, supported by the Cairns Group of 14 farm-ex-

porting countries led by Australia, has been demanding reductions over 10 years of 90 per cent in export subsidies and 75 per cent in domestic supports and border protection. Brussels has not budged from its offer to cut domestic supports by 30 per cent counting from 1988.

In the past two weeks, US negotiators had been talking of a deal under which farm assistance would be cut by 50 per cent over five years with a "continuation clause" attached to guarantee that more reductions would follow. But EC ministers doubted whether the US would finally agree to a steep downgrading of its original demands for a 30 per cent cut.

Mr Bush had effectively "brought the talks into a ball park where people cannot go on saying we are discussing unrealistic figures", one official said. Both sides were now "working with figures that pass the probability test", an EC official concurred.

At The Hague, Mr Bush made it clear that the US was ready to accept a lower level of reductions. On export restitution, the US offered a 30 per cent cut.

Continued on Page 16

China to adopt flexible stance in regional alliance, Page 4



Russian troops prepare to leave Grozny after Moscow announced their withdrawal from the region

Russian troops leave rebel region

By John Lloyd in Moscow

TROOPS SENT to the self-declared republic of Chechnya Ingushetia by Russian President Boris Yeltsin retreated last night after being surrounded by separatist national guardsmen.

A detachment of some 650 Russian interior ministry troops was sent to the autonomous republic's capital, Grozny, on Friday night, to enforce a state of emergency imposed by Mr Yeltsin.

The troops were yesterday reported to have been withdrawn by bus to the nearby city of Vladikavkaz, capital of the neighbouring autonomous republic of North Ossetia.

The Russian troops had earlier been surrounded by Chechen national guardsmen

at Grozny's military airport. The decision to withdraw seems to have been taken on the initiative of the local commander.

During the day, the republic's president, General Dzhokhar Dudayev, rallied his people in opposition to the state of emergency.

Mr Yeltsin refused to recognise Gen Dudayev's victory in elections called by local opposition groups led by the general. Mr Yeltsin ruled that the elections, held last month, were illegal as they had not been called by Moscow.

Dressed in green fatigues and flanked by armed men, Gen Dudayev told a news conference: "I boldly state that any provocative acts of state

terrorism against our people will not go unavenged."

"There are many mechanisms for this, very many, and we will inflict as much suffering as it [Russia] inflicted on this land. Everything is prepared."

Gen Dudayev has responded to the declaration of the state of emergency by imposing martial law and calling the nation to arms in defence of its independence. All men in the republic between 15 and 55 are being mobilised.

Hundreds of people milled around central Grozny late yesterday, chanting and waving green Islamic flags, hunting rifles and automatic weapons.

The events in the small, mainly Moslem, republic of

1.4m people is being seen as a test of Mr Yeltsin's political skills. It will also indicate what strategy he intends to pursue towards the nationalities and ethnic groups of Russia.

Radio Russia reported that Mr Akhmed Arsanov, sent by Mr Yeltsin as his plenipotentiary to Grozny a month ago, has said he would resign in protest at Mr Yeltsin's declaration of a state of emergency.

The decision also drew criticism over the weekend from Mr Gavril Popov, the mayor of Moscow, who said that "Russia is overwhelmed with imperialist ideas - all autonomous republics should be allowed to

Continued on Page 16

Test of Yeltsin's will, Page 2

UK rejects draft treaty on European political union

By Alison Smith in London and Quentin Peel in Bonn

THE UK would be unable to sign the latest draft treaty on European political union, Mr John Major told Chancellor Helmut Kohl in Bonn yesterday.

UK officials said after the talks last night, however, that the two leaders were determined to work together towards a successful conclusion at the EC summit in Maastricht next month.

It was agreed after a meeting described as "friendly and constructive" that discussions would resume on November 27 when Mr Major is due in Bonn.

The talks, which only foreign affairs advisers attended, ranged over not only European economic and political union but also the deteriorating situation in the Soviet Union and Yugoslavia.

Mr Major made clear that Britain was still working for agreement on political union but found difficulties with the current text. The final text is due to be presented to the EC

summit. The main areas on which Britain differs from Germany are on giving the Community a role in interior and justice issues, particularly immigration and asylum; giving the European Parliament powers of co-decision with the Council of Ministers; extending competence and qualified majority voting; and inclusion in the text of a reference to Europe's "federal goal", all of which the UK opposes.

There was no indication in advance of the talks yesterday of any German readiness to compromise on individual issues, apart from the general desire to see an agreement in Maastricht.

The German chancellor has repeated his wish to see the "federal" development of the EC, to see "co-decision-making" in the European Parliament, and has rejected inter-governmental co-operation as inadequate for control of cross-border crime and immigration.

In spite of British sugges-

tions that Mr Kohl is more accommodating on future European defence policy than before, German officials insist that the Franco-German plan to bring the Western European Union under the umbrella of European (Community) political union remains their policy.

Nonetheless, both leaders want to help each other. Mr Kohl is in effect telling Mr Major that if the UK will move towards the German position in some key areas, such as foreign policy and immigration, he will seek to persuade President François Mitterrand to compromise at the Franco-German summit in Bonn later this week.

In London yesterday, Mr Michael Heseltine, the environment secretary, underlined the government's concern as he warned that immigration and asylum issues would be the most difficult for the Community to resolve.

Exam differences, Page 3

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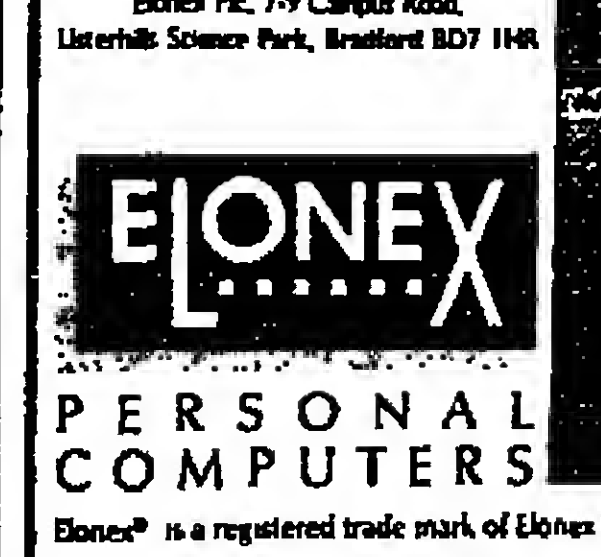
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"I'm in politics because I believe that my socialism, properly explained, would appeal to 80 per cent of the population," says Bryan Gould, environment spokesman for Britain's opposition Labour party. Page 34

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Vietnam: On the road to an open economic policy.

(Thursday's survey)

INTERNATIONAL NEWS

Irish prime minister survives leadership challenge

Haughey to reshuffle cabinet

By Tim Coone in Dublin

MR Charles Haughey, the Irish prime minister, is expected to reshuffle his cabinet tomorrow after defeating a challenge for his party's leadership from Mr Albert Reynolds, his former finance minister who was dismissed last Thursday, writes Tim Coone in Dublin.

Mr Haughey has also fired Mr Padraig Flynn, the environment minister, and three junior ministers for voting against him on a confidence motion, tabled in a special meeting of the parliamentary grouping of the Fianna Fail (Soldiers of Destiny) party.

Mr Haughey turned the tables on his opponents by insisting that an open ballot be held, instead of a secret one. Only 22 deputies out of 77 proved willing to vote against the prime minister openly.

Mr Reynolds made what was described as "a scathing and savage attack" on Mr Haughey in the 15-hour no-confidence debate, which finished in the early hours yesterday. He claimed he had been subjected to "a disinformation campaign" organised from the prime minister's press office, and that his home had been placed under surveillance.

However, he put a brave face on his defeat, saying he was encouraged by the support he

had received and that he intended to challenge Mr Haughey again.

On emerging from the grueling session yesterday morning, Mr Flynn said: "The leadership issue is finished." But the question remains whether Mr Haughey can whip his junior coalition partners, the Progressive Democrats (PDs), into line in the months ahead in the way he has done with his own party.

It is by no means certain the leadership issue is indeed dead. Rumblings from financial scandals continue; allegations of political favouritism and corruption in the beef industry and two state-run companies are being examined in a series of government inquiries which will unfold in the months ahead. If further surprises are in store, the PDs' own political future will be called into question.

The Progressive Democrats were born out of a previous leadership challenge to Mr Haughey in 1985 from within Fianna Fail. The rebels decided then to abandon the party which they felt was being irreparably damaged by Mr Haughey, and formed their own.

There has been disquiet within the PDs over staying in

the coalition, formed in 1989, especially as Mr Haughey has once again given the impression of dragging the government into the mire of scandal. Should they pull out, general elections will have to be called.

Mr Haughey has the option of offering them senior cabinet posts in the reshuffle; the finance and environment portfolios have to be filled following the sacking of Mr Flynn and Mr Reynolds.

The PDs have their sights set on the Finance Ministry, and wish to introduce more sweeping tax reforms than Mr Reynolds was prepared to contemplate. Offering such a key post to the PDs would not sit well with Mr Haughey's party though as the post is widely viewed as a springboard to the prime minister's post.

Indeed, one of the reasons why Mr Reynolds was abandoned by most of his cabinet colleagues in his challenge to Mr Haughey was that they saw an opportunity to eliminate Mr Reynolds in the succession stakes, and give themselves time to prepare their own campaigns.

Mr Haughey raised expectations of change when he told party leaders recently that he would step aside once he had

completed the policy agenda ahead of him. This has been widely understood within the cabinet to mean before next Easter.

None the less, he has been studiously non-committal about his intention to carry on to the next general election, constitutionally due in two and half years.

His ambiguity precipitated Mr Reynolds' challenge, and if it continues is likely to trigger other contests in the months ahead.

After yesterday's vote, senior cabinet ministers continued to offer diverging views on what they believe to be Mr Haughey's intentions.

The government faces a tough year ahead on several fronts. A tight budget will have to be implemented and difficult negotiations are expected with the trade unions, while the escalation in violence in Northern Ireland is creating growing concern in the south.

Increasingly vocal unionist calls for intervention on both sides of the border to crack down on the IRA will be a very divisive issue, as will proposals to amend the Irish constitution to drop the republic's formal territorial claim to the North.

Mr Haughey's reprieve may thus be only temporary.

Nationalism will test Yeltsin

By John Lloyd in Moscow

A SMALL autonomous republic in the North Caucasus has become the first big test of Russian President Boris Yeltsin's political skill.

What Mr Yeltsin does to and with Chechen Ingushetia, whose 1.4m people live on a 7,500-square-mile territory between the Black and Caspian seas, will reveal much about the strategy he means to pursue towards the nationalities and ethnic groups of Russia.

He faces a situation whose immediate trigger was the failed coup of August 19: a failure which made him the most important politician in the Soviet Union but which also gave the Chechen nationalist movement an opportunity to seize power.

The Chechen and the Ingush, both Sunni Moslems, have as many problems as any peoples in the Soviet Union. They are two of the many Caucasian ethnic groups, with their own language and oral cultures - the Chechen being the more numerous.

During the war they were uprooted and sent to Kazakhstan because of alleged collaboration with the Germans, who succeeded in playing on Caucasian ethnic rivalries to gain support against the Soviets.

Since they were restored to their lands in the 1950s, their autonomous republic, the most easterly of four such republics on the Russian side of the Rus-



Chechens fire in the air after hearing that government troops were withdrawing

sian-Georgian border, has been under a Soviet-Russian jurisdiction which has more or less kept the peace by suppressing dissent, especially that of a nationalist kind.

During the coup, the conservative leadership supported the putschists, at least passively: on August 22, the day after the coup's failure, the streets of the capital, Grozny, were filled with demonstrators demanding the resignation of the republican government because of its identification with the putsch.

The government hung on, as did the demonstrators, for two weeks: finally, on September 6,

it resigned.

This brought to the fore General Dzhikhar Dudayev, leader of the Chechen National Congress - described by the Soviet press at the time as "pro-Yeltsin". Gen Dudayev, 45, was forced to retire from the air force earlier this year, according to rumour, for becoming too politically involved. He told Pravda two months ago he had been a communist until last year.

Gen Dudayev moved quickly to fill the power vacuum: he formed an executive committee of the National Congress of the Chechen People, and gradually wrested power away from the remnants of the former republican government.

He called presidential elections for October 27, with himself as the leading candidate.

He was elected, but on a turnout said to be as low as 200,000. The election was not approved by the Russian authorities, who then declared it illegal.

Mr Yeltsin's ultimatum at the end of September for the Dudayev-created national guard to disarm was ignored.

On Friday evening the Russian president decided to act and declared a state of emergency, and a dusk-to-dawn curfew. He also despatched a small detachment of interior ministry troops to Grozny, but

these were last night reported to have withdrawn to nearby Vladikavkaz, capital of the autonomous republic of north Ossetia after being surrounded by separatist guardsmen.

For his part Gen Dudayev has declared martial law, and called the nation to arms.

The situation is triply dangerous. It could in the near future develop into a shoot-out in which the Russian troops are seen as imperialist. Added to this is the fact that the Vainakh Democratic party, which supports Gen Dudayev, has links with similar groups in other Moslem Caucasian republics, and may be able to draw them into an anti-Russian "jihad" - holy war.

Third, Chechen Ingushetia has already demanded that Vladikavkaz, an Ingush city before the war, be returned to the republic. A new bout of interethnic strife could accompany a Caucasian-Russian struggle.

It is for these reasons that Mr Yeltsin's moves are now important. Once a critic of Mr Mikhail Gorbachev's "Soviet imperialism", he now stands accused of an older form of the same disease: Russian imperialism. He may choose to accept that description rather than back away from what he and many of his advisers see as a test of will.

Soviet Union 'in imminent danger of debt default'

By Quentin Peel in Bonn

THE Soviet Union is in imminent danger of defaulting on official debts, and it may now be too late for any western "safety net" to prevent it, according to Mr Hilmar Kopper, the chief executive of Deutsche Bank.

After returning from Moscow last week, Mr Kopper denied that a Soviet debt default would cause a crisis in western and particularly German banks.

"The liquidity crisis is extremely acute," he told a Munich meeting of economic journalists. Claiming an exact knowledge of the Soviet foreign currency figures, he said that "until early Monday morning, nothing will happen... from Monday on, anything is possible."

Deutsche Bank, which has been lead manager for big export finance packages to the Soviet Union, almost certainly has the largest individual exposure among western banks and at the same time the best banking and political contacts there. Mr Kopper has been arguing since the August coup that the west should put together an emergency loan of \$4bn-\$5bn to tide the country over its immediate balance of payments crisis.

It was now probably too late for such a move. The Deutsche Bank chief said he was afraid the west had "talked for too long over the patient's bed, and now he is already dead".

Total Soviet foreign debt is put at more than \$60bn, of which debt to Germany alone is put at some DM35bn (\$21.5bn), including unpaid

debts inherited from the former East Germany.

German officials say that so far there has been no instance of default on any Soviet payments officially guaranteed by Vnesheconombank, the Soviet bank for foreign economic relations. However, they guarantee only for export contracts which also have backing from Vnesheconombank.

On the other hand, German exporters who have accepted contracts without backing from Vnesheconombank are already facing arrears in payments of DM2.5bn-DM3bn, and many small and medium-sized companies are facing bankruptcy as a result, the officials say.

Individual republics, including Russia, are trying to persuade the German authorities to give export credit guarantees direct to their foreign trade banks - without going via Vnesheconombank - but the officials say they are doubtful that any have enough gold or foreign currency reserves to guarantee repayments.

Mr Kopper said that if the individual republics accepted responsibility for repayment of existing Soviet debts, from 1992 it might be possible to negotiate individual debt forgiveness agreements.

He said there should be no German banking crisis, because 1991 had been a good year for the system in other respects, and much Soviet debt had already been allowed for. Analysts estimate that Deutsche Bank could be owed around DM1.5bn in unsecured loans, followed by Dresdner Bank and Commerzbank with exposure of about DM1bn each.

Doubts over Warsaw government

PROFESSOR Bronislaw Gernerski, who was asked by President Lech Walesa at the weekend to form the next Polish government, doubts he will succeed, Christopher Bohinski writes from Warsaw. "I cannot say I am convinced my mission will be successful," Prof Gernerski said after hearing the other parties' reservations.

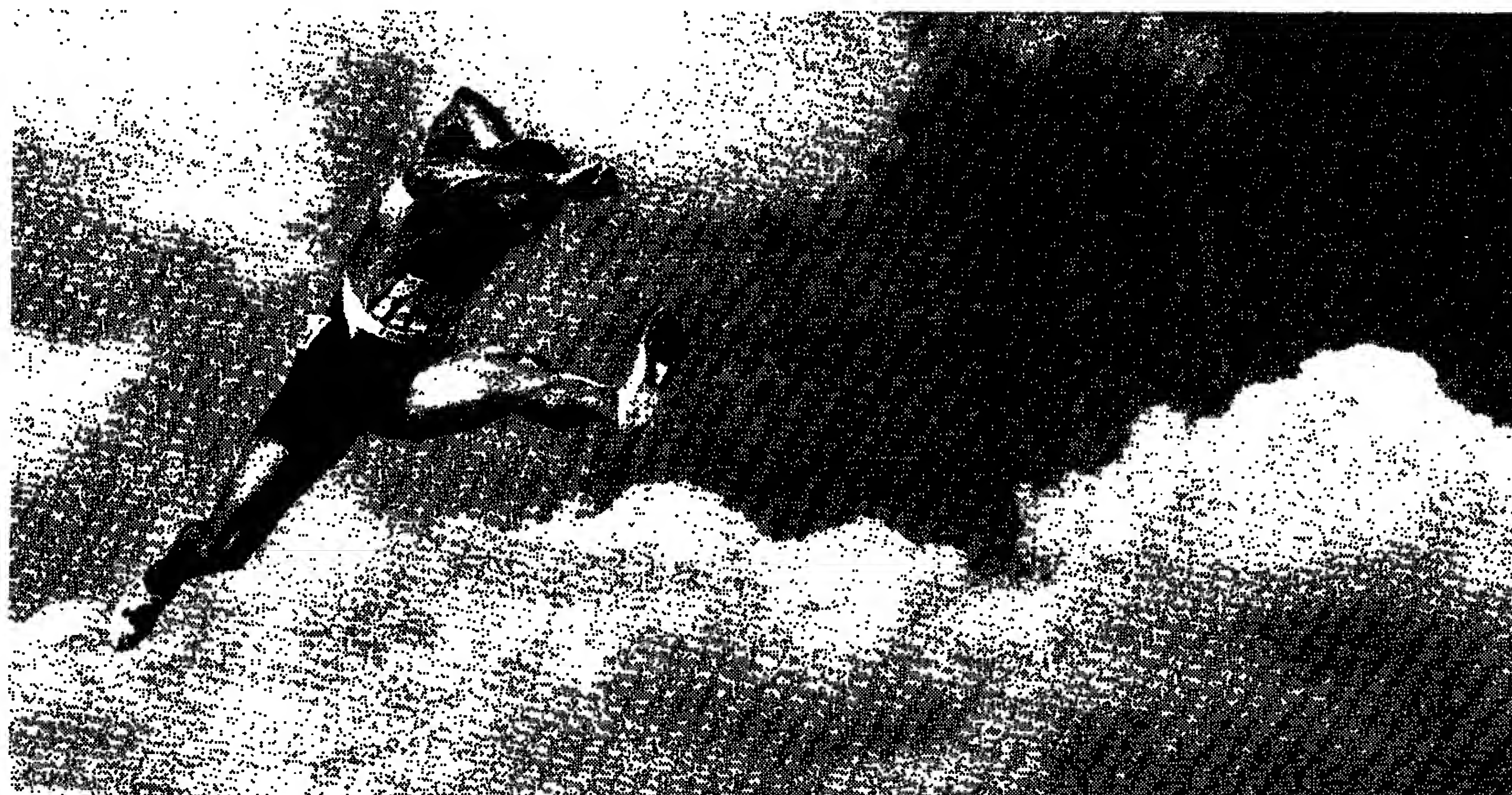
The election on October 27 left parliament dominated by seven big groupings forming three blocs almost equal in strength.

The right-wing Christian Democrat parties have already opposed the choice of Mr Gernerski as a potential prime minister and had reached preliminary agreement on forming a

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Ministers meet to thrash out Emu differences

By David Buchan in Brussels

MINISTERS of the 12 European Community member states will spend most of this week trying to narrow their differences on political and monetary union to a point where settlement can be reached at next month's Maastricht summit.

The Dutch presidency of the EC has tabled virtually all the outstanding issues in the economic and monetary union (Emu) negotiations for discussion by finance ministers in Brussels today and tomorrow.

Italy will also have its budget problems discussed by its EC partners, as part of a drive to get the economies of the Twelve to converge in the run-up to Emu.

Tomorrow foreign ministers gather for a special two-day conclave at Noordwijk on the Dutch coast in an attempt to reach the maximum degree of agreement on a revised political union text which the Dutch presidency sent its partners yesterday.

By the end of this conclave, which may stretch to Thursday morning, "we hope to have agreement on the bulk of the text," a senior EC official said yesterday. "With the remaining problems going to Maastricht." He said that "we need to define with sufficient precision what we cannot agree on" so that Mr Ruud Lubbers, the Dutch prime minister, can pursue these points in bilateral talks with fellow EC leaders before Maastricht.

Almost the only controversial Emu issue which is not scheduled for debate this week is that of the general let-out clause. The Dutch propose to write this into the treaty to suit Britain, but to counter-balance it with a declaration by which other countries would promise not to use the let-out themselves. Several of the UK's partners regard this as an absurd, not to say dangerous, ruse. But this essentially political problem will probably not

be resolved until Maastricht.

Much of this week's argument among finance ministers is expected to centre on the composition and function of the European Monetary Institute (EMI), the new body which the Dutch propose should co-ordinate the Twelve's monetary policies in the transition to the planned European central bank and a single currency.

Despite progress reported in last week's talks between their two finance ministers, France is still pressing for the EMI to prefigure the European central bank in having a powerful EC-appointed president and some currency reserves at its disposal, and Germany is still resisting anything resembling such a bank until the moment EC states pool their monies into one currency.

The new political union text is merely designed to reflect ministerial discussions over the past month. These have produced:

- A possible compromise over the European parliament, giving it still more say, and a last-resort veto over, internal market laws. Britain's partners hope it can agree to this, since the internal market is a legislative area in which Strasbourg MEPs already have considerable clout.

- Refinements in the texts on extending majority voting in social policy, and on creating new EC competence in such areas as health, education, industry and consumer protection. "We cannot go much further here in purely drafting terms," said an EC official yesterday. "Ministers must soon accept, or decide that agreement is impossible," he added.
- Glimmerings of a compromise on common foreign policy. "The rule would be that the decisions would be taken by unanimity, unless they are of a technical, implementing nature," said the official.

Employer-union accord may assist social policy

By David Goodhart and Alison Smith

THE European Commission has backed an agreement between European employers and trade unions which could meet some of the UK government's objections to the EC's current programme of social legislation.

The agreement, struck between UNICE, the European employers' body and the European Trades Union Congress, will be presented by the Dutch presidency for inclusion in the new EC treaty to be debated at the Maastricht summit next month.

The UNICE-ETUC agreement would give employers and unions a privileged position in the drafting and implementation of social legislation.

Employers and unions would be consulted jointly before draft directives are issued and will be allowed nine months after that to reach agreement on details. The European TUC is happy to call this process "bargaining" although the employers' federation dislikes the use of the term.

Agreements reached then could go either to the Council to become EC law or be implemented, and possibly further amended, by employers and

unions in individual states as a substitute for EC legislation.

The inclusion in the treaty of a central role for employers, and the national implementation of agreements, could mollify those EC countries which have argued that much EC-wide social legislation, for example over working-time, is inflexible and anti-business.

Mr Tony Blair, shadow employment spokesman for the British Labour party, said: "This deal allows the CBI [the British employers' federation] and the TUC to introduce the desired flexibility to the principles agreed in Brussels." He called on the government to drop its opposition to the social charter and to majority voting on social affairs.

He added that it would "blow the cover" of the government which has attempted to disguise its fundamental disagreement with the principle of social European policy behind controversial interpretations of particular directives.

Mr Michael Howard, the employment secretary, dismissed Mr Blair's analysis, and said that the agreement had nothing to do with qualified majority voting.

Bush rediscovers an enthusiasm for Europe

By Lionel Barber, US Editor, in Brussels

PRESIDENT George Bush has rediscovered his enthusiasm for a united Europe. This enthusiasm is not without qualification: but at the end of his four-day trip to Rome and The Hague, Mr Bush showed that he is adjusting to the transformation of the transatlantic alliance, hastened by the end of the Cold War and the disintegration of the former Soviet Union.

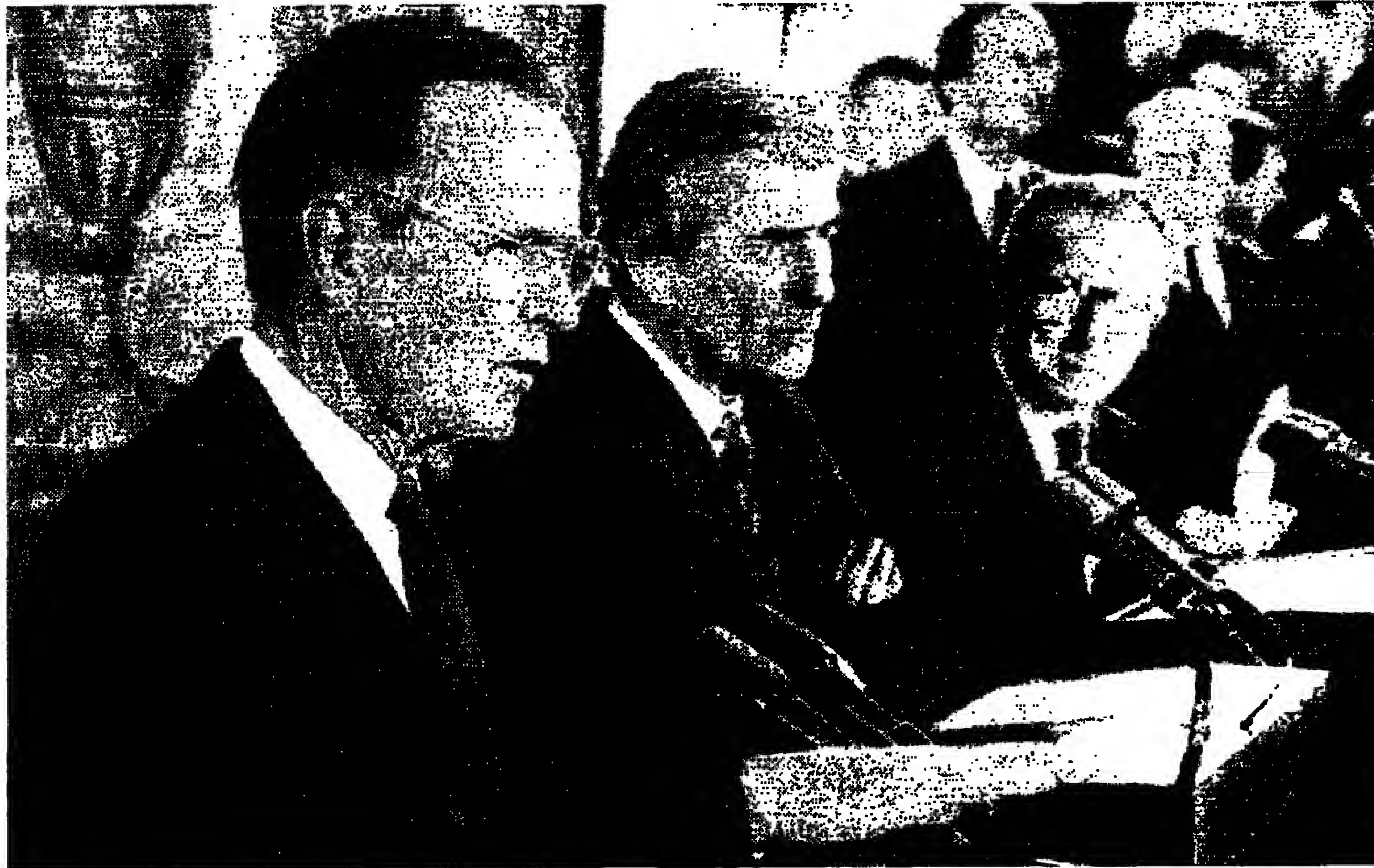
Proof, if it were needed, came in an address in The Hague on Saturday. Mr Bush spoke of a "new Atlantic partnership" in which Europe - primarily the EC - would take on larger responsibilities in foreign policy, security and aid to the emerging democracies in central and eastern Europe.

"We welcome the emergence of the new Europe, in the European Community's march towards a single market and political union, in the revival of the Western European Union, in the EC's new accord with the European Free Trade Association," he declared.

Mr Bush's embrace of the new Europe may amount to a recognition of the inevitable, similar to his early support of German unification. But it marks his most striking endorsement since his Boston speech in the May 1989: the US President clearly wants to work with - rather than against - the process of political and economic integration.

The results of the Nato summit in Rome and his summit with the EC in The Hague support this conclusion. First, Mr Bush sought and won assurances in Rome that the Europeans want a continuing US military presence on the Continent; second, he secured agreement that the Nato alliance will be "the essential forum for consultation among the allies" on security and defence commitments of its members; third, he won support for expanding formal links between Nato and the former communist countries to the east.

The precise details on the future relationship between the reshaped Nato and Europe's plans for its own "defence identity" remains unclear; but the US response is that this was inevitable, in the light of next month's European conference on political union in Maastricht. The most important US goal in Rome was to reach a broad consensus which left



President George Bush, Ruud Lubbers, the Dutch prime minister and Jacques Delors, EC Commission president in the Hague on Saturday

Nato with a future.

Mr Bush also took comfort from the joint Nato and US-EC statements on eastern Europe and the Soviet Union which set out the conditions for integration of the former communist bloc into the world community, such as respect for borders, the right of minorities and the rule of law.

The French complained about "preaching", but the US-EC declaration contained blunt language that the respect of these principles "will be

fundamental to the development of our relations". Implicitly, this means economic aid. Indeed, a foretaste of future joint action against those who violate the Helsinki Act principles came when Mr Bush pledged support on Saturday for EC sanctions against Yugoslavia.

There was give as well as take, on the US side. Mr Bush's new proposals on agriculture seem a good-faith effort to break the log jam in the Gatt multilateral trade talks. "We must guard

against the danger that old Cold War allies will become new economic adversaries. Cold War warriors turned trade warriors," he said in The Hague.

The warning was levelled not only at Europeans but also at domestic critics at home, whom he accused of succumbing to "naïve isolationism". Most of these voices come from a vocal minority on the conservative wing of his own Republican Party; but they remain a political threat because the collapse of communism has forced

the US to redefine its terms of engagement with Europe.

This week, Mr Bush took further steps in this historic task. He looked and talked like an internationalist. Whether his successors will be so forthcoming in coming to grips with the new Europe is open to question. Much will depend on reaching a Gatt agreement, since the Americans view this - as much as the future of Nato - as the test of how open the new Europe really will be.

Tobacco curb proposal faces rough ride

By Andrew Hill in Brussels

MS Vasso Papandreou, the EC health commissioner, will get a rough ride from Community health ministers today when Commission plans to ban all tobacco advertising will be formally debated by EC member states for the first time.

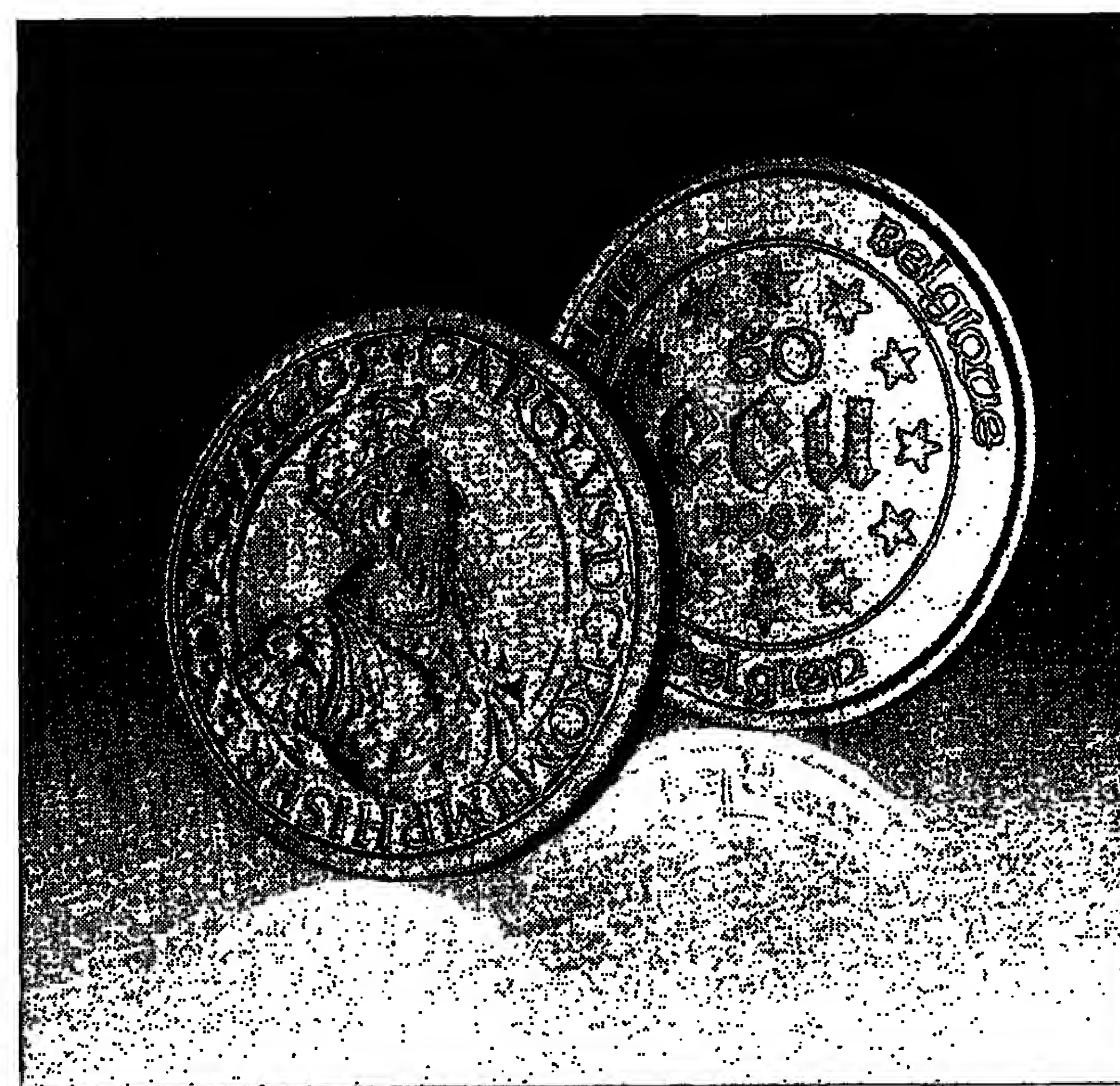
The proposals, which would outlaw all direct and indirect tobacco advertising, have already been attacked by cigarette-makers, newspaper publishers and the advertising industry. Among the 12 member states, Britain, Germany, the Netherlands and Denmark all object to the draft legislation. Since June, Greece - Ms Papandreou's home country - is also against a ban.

The five countries have sufficient weight in the council to throw out the measure but they will be no formal decision today because it has yet to receive its first reading in the European parliament.

Health ministers first had a chance to discuss the legislation in June when it was attacked by Germany, Britain, the Netherlands and Denmark. A modified version of the proposal has since been floated to see if a compromise is possible but dissenting states did not alter their position.

Ms Papandreou argues that public opinion is strengthening against tobacco advertising and that the single market will be distorted if different national measures are still in place after the end of 1992.

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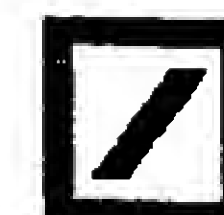
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INTERNATIONAL NEWS

Apec meeting will bring together ministers from Taipei and Beijing

China to adopt flexible stance in regional alliance

By Yvonne Preston in Beijing

TWO SENIOR Chinese ministers break historic ground today when they leave for Seoul, the South Korean capital, to seal Beijing's membership of the Asia Pacific Economic Co-operation (Apec) grouping.

The critically important four-day meeting is to extend membership to the "three Chinas" - the People's Republic of China, Taiwan and Hong Kong. On at least two counts it achieves what would only recently have been regarded as impossible: bringing Chinese and Taiwanese officials together at the same table and bringing Beijing ministers on to the soil of the fiercest enemy of its closest ally, North Korea.

Qian Qichen, minister for foreign affairs, and Li Jiaqiang, minister for economic relations and trade, will represent Beijing.

China and South Korea do not have diplomatic relations, although there is growing trade between the two, defined as "people-to-people" and "non-governmental" by Chinese officials. China's traditional ally has been North Korea, a bitter ideological enemy of the Seoul government.

China has decided to be "flexible" in Apec over the

joint participation of Taiwan and Hong Kong and the question of who represents China. However, the same cannot be said of the General Agreement on Tariffs and Trade (GATT), where both China and Taiwan seek membership. Beijing contests Taiwan's aim to join GATT as a separate tariff area.

The still-embryonic Apec grouping, which will from tomorrow include 15 members from the Asia-Pacific region, is at present seen mainly as a forum for discussion of trade issues.

China's trade minister can expect gruelling negotiations with Mrs Carla Hills, the US trade representative, who is threatening trade sanctions over what the US regards as China's unacceptable trade practices.

The meeting will also be used as an important forum to push the long-delayed Uruguay Round of world trade talks towards a conclusion.

Apec ministers present - as well as representatives from the Cairns Group of farm product exporters, Japan and the US - will be taking careful account of the progress of talks in Geneva aimed at achieving a breakthrough on world farm trade.

Hunger strike denial

CHINA yesterday denied reports that jailed dissidents planned a hunger strike to coincide with the visit this week of Mr James Baker, US secretary of state, writes Yvonne Preston.

In a terse statement released through the official Xinhua news agency, a Foreign Ministry spokesman rejected allegations in the western press that 10 prisoners in China's north-east Liaoning province proposed a hunger strike to protest at maltreatment.

The spokesman described

the reports as "a fabrication, with ulterior motives". The reports in fact referred to six prominent dissidents.

A statement issued by their supporters said they decided to refuse food to protest against "cruel persecution". The hunger strike was said to be planned for November 15, the date of Mr Baker's arrival in Beijing.

The statement claimed authorities beat prisoners with fists, leather belts and electric batons, and said they were forced to work 14 hours a day.



THOUSANDS of Arab well-wishers greeted the Palestinian delegation to the Middle East peace conference with olive branches and flowers on their return to the occupied West Bank yesterday.

HK airline to choose aircraft by February

By Paul Betts, Aerospace Correspondent

CATHAY Pacific, the Hong Kong-based airline, expects to decide by next February on an order worth more than \$2bn (£1.1bn) for new twin-engine widebody aircraft. The decision would have important implications for Rolls-Royce, the UK aero-engine group.

Mr Peter Sutch, the airline's deputy chairman and managing director, also disclosed at the Dubai air show that Dragonair, the regional carrier 49 per cent owned by Cathay, was planning to acquire an operating lease up to 10 European Airbus A320 widebody jets.

Dragonair is expected to announce before the end of the year its decision to take on operating lease five A320s on a firm basis, with options for five more. Mr Sutch said Dragonair would also have an option to buy the leased Airbus aircraft.

Cathay was originally expected to announce its order for widebody aircraft this summer. But the slump in the airline industry and political uncer-

tainty over the future of Hong Kong delayed the decision.

Mr Sutch said although an announcement was now likely next February, much depended on the situation between Hong Kong and China. He said Cathay was considering a stretched version of the Airbus A330 widebody jet or the new Boeing 777 widebody for the airline's expanding South-East Asian operations, replacing its older fleet of Lockheed L1011 Tristars.

It was also looking at a stretched version of the Boeing 777 to replace older Boeing 747-200 aircraft from 1998. Cathay's decision is particularly important for Rolls-Royce, which appears strongly placed to win the order; it would give a significant boost to the UK group's heavy-thrust Trent engine, which recently lost out to the US General Electric GE90 engine in the competition for British Airways' fleet of new Boeing 777s.

De Klerk cements Israeli links

By Hugh Carnegie in Jerusalem

THE close and often clandestine ties between South Africa and Israel, who co-operated for years to ease their common status as international pariahs, were reaffirmed at the highest level yesterday when President F.W. de Klerk arrived in Jerusalem for a three-day visit.

Israel reluctantly distanced itself from Pretoria in the late 1980s under pressure from Washington, imposing economic and military sanctions. But domestic reforms instituted by Mr de Klerk have allowed a public refurbishment of relations.

"We have seen the changes in South Africa's policy pertaining to apartheid," said Mr David Levy, the Israeli foreign minister, yesterday. "This is what made this visit possible. We have common goals in several spheres."

Mr de Klerk was accompanied by Mr Piki Botha, his foreign minister, and senior members of South Africa's 100,000-strong Jewish community. He was welcomed to Jerusalem by President Chaim Herzog and will have meetings with Mr Yitzhak Shamir, the prime minister, and other key figures. It is the most senior visit by a South African since Vorster came in 1975.

An important concern for both sides is to regenerate their trading relationship, following the lifting by Israel three months ago of economic sanctions imposed in 1987. Although South Africa remained Israel's biggest trading partner in Africa, despite sanctions, the measures had a damaging effect.

Israeli non-military exports to South Africa, which had been rising sharply throughout the 1980s, rose from \$82m in 1987 to \$164m (\$96.3m) in 1989, but slumped to \$97m last year, according to official statistics. South African imports also sagged, before edging back to the 1987 level of \$221m in 1990.

This trade was always less important than the military ties developed as the two countries found themselves subject to international arms embargoes in the 1970s. Despite sanc-

tions, Israel was always suspected of continuing extensive military co-operation with Pretoria and came under pressure from the US to desist.

Mr Botha said yesterday he had no intention of discussing military matters during his visit. "The position is well known since 1987 - no new contracts have been signed. There is no need for new contracts to sign now or in the future."

Nevertheless the two sides will have to decide on the future of a defence relationship which over the years has attracted US concern about possible technology transfer by Israel, a recipient of advanced US weaponry.

Principal among these is the issue of nuclear co-operation. Allegations, some of them clearly leaked by the US government, have repeatedly been made that Israel and South Africa have worked together on developing nuclear weapons and delivery systems.

Until recently Israel and South Africa were at one in refusing any international

PLO faction in Damascus accord

By Tony Walker in Cairo

SYRIA and the Palestine Liberation Organisation took a further step towards "normalisation" at the weekend with reports from Damascus that the PLO's mainstream Fatah faction would re-open offices in the Syrian capital after an eight-year break.

Mr Farouk Kaddoumi, the PLO "foreign minister", said after talks with his Syrian counterpart, Mr Farouk al-Shama, that the organisation was co-ordinating with Syria steps towards peace.

Fatah offices in Damascus were closed in 1983 after Syria backed a mutiny against Mr Yasser Arafat, PLO leader, in the ranks of his own faction. Mr Arafat was expelled from the Syrian capital amid acrimony.

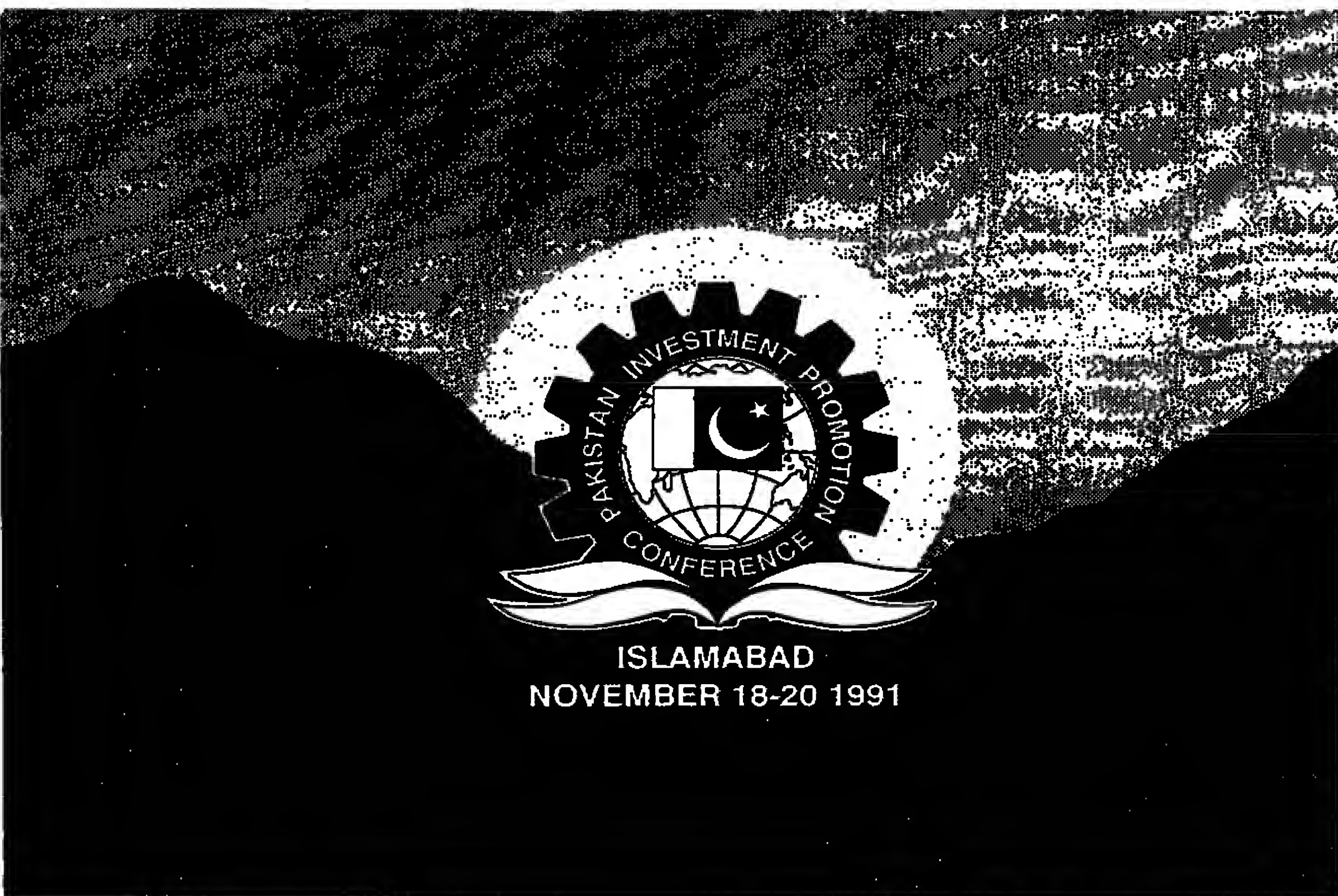
The PLO mainstream is also seeking an accommodation with Damascus-based Palestinian splinter groups which formed an anti-Arafat organi-

sation known as the Palestine National Salvation Front.

Mr Kaddoumi arrived in Cairo yesterday for talks with Egyptian officials on preparations for the next stage of the Middle East peace process. Mr Arafat met Egypt's President Hosni Mubarak in the Egyptian capital on Saturday.

Egyptian officials expect a second round of bilateral talks between Israel and its neighbour, including the Palestinians, to be held within three weeks.

However, differences emerged at the weekend within the Arab coalition over multi-lateral talks. Syria is opposed to these regional discussions on such issues as disarmament, water and the environment until real progress has been made in negotiations on the return of Israeli-occupied Arab land, including the Syrian Golan Heights.



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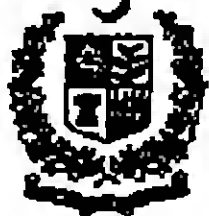
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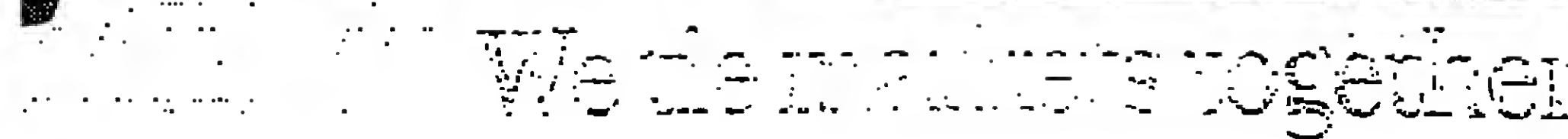


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INTERNATIONAL NEWS

German job losses to surge

By Christopher Parkes in Bonn

GERMANY'S defences against a surge in unemployment are starting to collapse. Alarm signals at the weekend included a warning that almost 330,000 in the east would lose their jobs before the end of the year, while Mr Jürgen Möllemann, economics minister, said coal industry redundancies were inevitable.

The warnings follow an admission from Mr Norbert Blum, labour minister, that average unemployment in the east would rise by 400,000 next year and by 200,000 in the west. Without labour policy subsidies supporting job creation, early retirement and retraining, the official current total of 1m jobs in the former east Germany would be 3m higher, he said. This is over 34 per cent of the workforce. Including "hidden" jobless in the east and workers supposedly on short-time, aggregate German unemployment already tops 12 per cent. Money, mainly against a flood of sackings in the east, is running out. Mr Blum told the Bundestag budget committee last week that 450,000 jobs would have to be protected next year. The cost would increase from DM37.6bn to



Screaming "Sieg Heil! Foreigners Out!", 400 neo-Nazis parade through Halle, eastern Germany, only to abandon the old national anthem because they had forgotten the words. Their thunder was stolen by more than 100,000 demonstrators marching against racism across the country. The demonstrations marked the Nazi Kristallnacht persecution of the Jews and the fall of the Berlin Wall

DM48.9bn (\$216.7bn). Existing policy instruments and resources could not cope with more. Among those expected to fall into Mr Blum's safety net next year are many of the 1.2m easterners now working short time. IWD, the Cologne economics institute, says 60 per cent are working less than half the standard week, with many of these doing nothing. Ms Birgit Breuel, president of the Treuhänder east German privatisation agency, warned at the weekend of more closures as she sets about disposing of big concerns in areas

such as Saxony and Thuringia. "It is not sensible to keep on sustaining businesses with no prospects," she said. Some 326,000 east German jobs would be lost in the final quarter of this year.

Unemployment in Saxony is below average, at 10.7 per cent of the 2.5m local workforce, but the state, dependent on mechanical engineering, optics, and railways, also has 370,000 people on short time. Mr Jens Odewald, Treuhänder board chairman, warned of a 45 per cent cut in the east's 920,000 farm workforce during

1992, similar cuts in electrical engineering, 20 per cent job losses in building, and 30 per cent in steel. Concern is growing over short time in the west, where last month's total rose 31 per cent to 173,000, against 39,000 in October last year, federal labour office figures show. Almost 70 per cent work in metal engineering, electrical and vehicle making. Germany's leading export industries, mechanical engineering has 66,300 on short time. IWD said this trend could signal a fundamental change in the

labour market. Medium-term prospects depend on a steeper rise than seen in demand from traditional overseas markets, and the resolution of infrastructural issues stifling much capital investment in east Germany. East German post offices were shut much of last week as workers reacted against threats of job losses and demands for pay restraint. IG-Metall union, representing 3.6m workers, threatened stoppages after Christmas; miners in the west are set to fight planned pit closures.

'Keep it simple' is key to German story of success

David Marsh on the machinery industry's exports



A survey by management consultants McKinsey, in co-operation with the Technical University in Darmstadt, shows "simplicity" is the key to success in the German machinery industry, which makes up a large part of the country's European export sales.

It reveals a clear correlation between business performance and the degree of streamlining of product range, customer base and organisational structure. The more successful German machinery companies offer only 20 per cent of the product groups required by less successful competitors to achieve the same volume of sales.

Machinery companies with less product variety achieve profits of about 7 per cent of sales, against returns of only 4 per cent of sales for those with a wider range of products.

The report underlines the diversity of this German industry sector. In the second half of the 1980s, the sales of the strongest German companies

in machine tools, components and white goods grew by almost twice the growth rate of the German economy as a whole.

Laggards in the sector grew at only half the expansion rate of the whole economy. Best performers achieved 60 per cent higher returns on equity, and 160 per cent higher returns on sales than their worse-off rivals.

Companies achieving the best results postpone until a late stage in production the time when a manufactured item is "customised" to meet buyers' needs. Postponement of "customising" is achieved through using modular designs and interchangeable parts, so fewer components are required for assembly. The benefits of cutting complexity extend to manufacturers' relationships with suppliers. Successful companies use fewer suppliers as component sources, less than half those used by less successful companies for a given purchasing volume. Better-performing companies use only one supplier for all similar parts, building up a longer-term relationship with the supplying groups.

McKinsey has found simple logistics provide another important pointer to better results.

The best German machinery companies take an average eight weeks from receiving an

order to delivering the product. For less successful competitors, the time is twice as long. Stronger companies have much shorter time horizons for production planning than weaker ones, four months rather than eight, allowing more flexibility. Top machinery groups concentrate all production functions for one particular product at a single location, ensuring shorter and more manageable flows of materials and information. More sluggish groups prefer mixed production sites with greater complexity.

The leitmotif of cutting complicated procedures should be applied to research and development, the study says. Successful companies spend less on development, but because they concentrate expenditure, the amount spent on individual product groups is greater than that of weaker rivals.

Better companies bring products to market twice as fast by compressing each stage of the development process. They simplify management structures by decentralising decision-making.

In a successful company, the investment budget over which a "second tier" manager has control is four times greater than in a less high-flying concern.

The Secret of German Competitiveness, by Günter Rommel, McKinsey & Co, 74 St James's St, London SW1A 1PS.

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

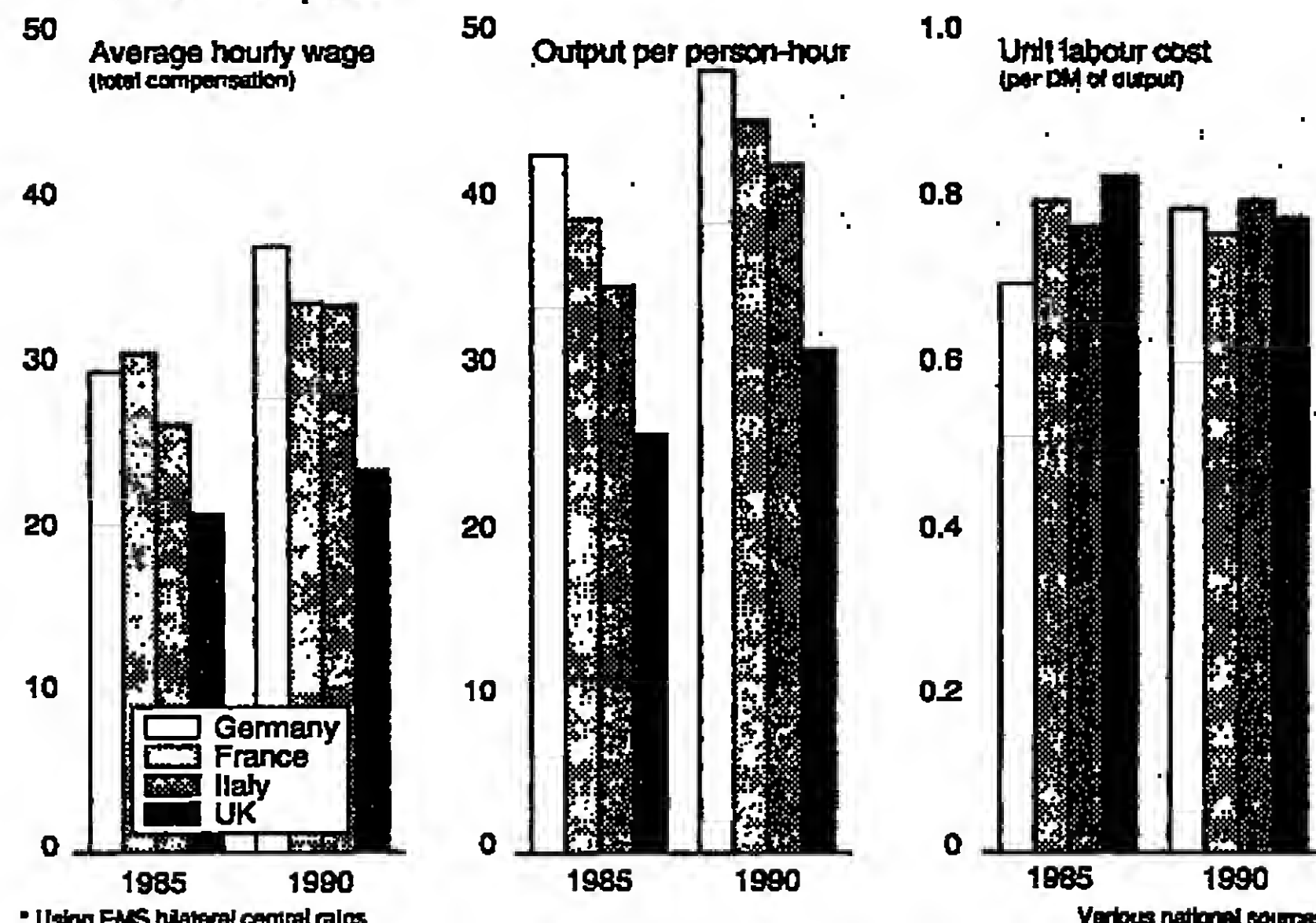
Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

■ UNITED STATES					■ JAPAN					■ GERMANY					■ FRANCE					■ ITALY					■ UNITED KINGDOM						
Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate		
1984	96.8	99.1	96.0	98.4	97.1	97.9	100.8	97.0	98.4	100.1	97.9	97.8	98.0	100.0	98.7	94.5	95.8	94.4	95.5	114.1	92.1	92.8	89.9	91.8	98.7	94.3	95.0	91.7	94.3	97.5	
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1986	101.9	98.6	102.0	99.9	77.1	100.8	95.3	101.4	103.3	125.7	99.9	97.5	104.0	104.0	111.3	102.5	97.2	104.5	101.5	101.9	106.1	100.0	100.0	100.0	102.6	101.4	103.4	107.7	104.5	92.9	
1987	105.6	100.7	104.0	97.5	94.7	101.2	92.5	103.1	100.6	128.9	100.1	95.1	108.0	107.0	128.0	108.9	97.8	107.8	103.8	102.1	111.0	103.2	111.6	105.6	102.5	107.7	108.3	116.3	105.9	90.6	
1988	108.9	103.2	107.0	98.4	98.9	102.2	92.3	107.8	98.2	137.4	101.4	96.2	113.0	107.0	128.2	108.6	102.8	111.1	104.3	99.3	116.5	106.8	118.4	109.7	107.9	113.0	123.2	120.9	96.6		
1989	115.2	108.5	110.0	99.1	93.0	105.0	94.2	114.0	96.1	131.3	104.2	95.3	117.0	108.0	122.6	112.8	108.4	116.4	108.5	95.8	124.2	113.1	125.6	112.2	109.2	121.8	119.0	137.2	113.5	95.0	
1990	121.5	113.8	114.0	99.2	96.6	108.2	95.7	120.1	98.2	116.1	107.0	101.0	124.0	111.0	128.6	116.4	107.1	120.8	106.7	100.6	131.8	117.6	134.7	117.1	117.1	133.3	126.0	150.1	123.7	98.3	
4th qtr.1990	6.2	6.4	3.9	0.6	52.1	3.6	2.4	5.7	0.7	120.8	3.0	1.8	n.a.	3.1	124.6	3.6	0.7	n.a.	102.7	6.3	3.9	7.2	119.5	10.9	5.9	9.6	11.5	105.2	4th qtr.1990		
1st qtr.1991	5.3	3.5	3.6	2.3	52.7	3.8	2.8	3.8	1.3	118.0	2.7	2.1	n.a.	2.4	124.2	3.4	0.7	n.a.	101.3	8.8	4.2	7.9	118.4	8.7	6.3	8.9	10.9	107.1	1st qtr.1991		
2nd qtr.1991	4.8	3.4	2.9	2.5		3.1	2.3	4.3	3.0		3.1	2.2	n.a.	3.0		3.2	-0.6	n.a.		8.8	3.9			6.0	8.0	8.5	10.9		2nd qtr.1991		
3rd qtr.1991	3.9	1.8	3.2	2.5		3.3					4.1	2.8	n.a.			3.0				6.4				4.8	6.7				3rd qtr.1991		
October 1990	6.3	6.5	4.5	-1.2	n.a.	3.1	2.0	4.9	0.0	n.a.	3.3	2.0	5.9	1.9	n.a.	3.9	n.a.	4.8	n.a.	n.a.	6.2	4.2	7.2	n.a.	n.a.	10.9	5.9	9.2	10.4	n.a.	1990 October
November	6.3	7.0	3.6	0.6	n.a.	3.9	2.5	5.5	1.0	n.a.	3.0	1.8	-	3.7	n.a.	3.8	n.a.	-	n.a.	n.a.	6.5	4.0	7.4	n.a.	n.a.	9.7	5.8	9.8	11.8	n.a.	November
December	6.1	5.7	3.6	2.6	n.a.	3.7	2.5	6.0	1.0	n.a.	2.8	1.5	-	3.7	n.a.	3.4	n.a.	-	n.a.	n.a.	6.3	3.5	7.1	n.a.	n.a.	9.3	5.9	9.9	12.1	n.a.	December
January 1991	5.7	4.0	4.5	1.8	n.a.	3.9	2.8	1.9	0.0	n.a.	2.6	2.3	6.7	1.8	n.a.	3.5	n.a.	4.6	n.a.	n.a.	6.5	4.2	7.8	n.a.	n.a.	9.0	6.3	9.5	10.7	n.a.	1991 January
February	5.3	3.4	3.6	2.6	n.a.	3.4	2.8	5.4	1.0	n.a.	2.7	2.2	-	2.7	n.a.	3.5	n.a.	-	n.a.	n.a.	6.7	4.2	7.8	n.a.	n.a.	8.9	6.3	9.1	11.6	n.a.	February
March	4.9	3.2	2.7	2.6	n.a.	3.4	2.6	4.1	3.0	n.a.	2.5	1.8	-	2.8	n.a.	3.2	n.a.	-	n.a.	n.a.	6.6	4.2	8.0	n.a.	n.a.	8.2	6.5	8.0	10.3	n.a.	March
April	4.9	3.3	2.7	2.4	n.a.	3.0	2.4	4.0	3.0	n.a.	2.8	2.2	6.5	0.9	n.a.	3.2	n.a.	-	n.a.	n.a.	6.4	4.0	8.4	n.a.	n.a.	8.2	6.2	8.0	12.6	n.a.	April
May	5.0	3.5	3.5	2.5	n.a.	3.0	2.4	4.0	2.0	n.a.	3.0	2.2	-	4.4	n.a.	3.2	n.a.	-	n.a.	n.a.	6.8	3.8		n.a.	n.a.	5.8	6.0	8.3	11.0	n.a.	May
June	4.7	3.5	2.6	2.6	n.a.	3.3	2.2	4.6	4.0	n.a.	3.5	2.3	-	3.8	n.a.	3.3	n.a.	-	n.a.	n.a.	6.9	3.8		n.a.	n.a.	5.8	5.8	8.0	9.0	n.a.	June
July	4.4	2.9	3.5	2.2	n.a.	3.4	2.0	1.9	3.0	n.a.	4.4	3.3	-	1.8	n.a.	3.4	n.a.	-	n.a.	n.a.	6.7	3.8		n.a.	n.a.	5.5	5.9	7.6	7.2	n.a.	July
August	3.8	2.0	3.0	2.0	n.a.	3.5	1.9	2.7		n.a.	4.1	2.7			n.a.	3.5	n.a.	-	n.a.	n.a.	6.3			n.a.	n.a.	4.7	5.7	8.4	7.1	n.a.	August
September	3.4	0.7	2.6	2.5	n.a.	3.0				n.a.	3.9	2.6			n.a.	2.6	n.a.	-	n.a.	n.a.	6.2			n.a.	n.a.	4.1	5.9			n.a.	September

Statistics for Germany apply only to western Germany. Data supplied by Databank and WEFA from national government and IMF sources. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted. US - finished goods, Japan - manufactured goods, Germany - industrial products, France - intermediate goods, Italy - total producer prices, UK - manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany - mining and manufacturing, other countries - manufacturing industry. Real exchange rate: IMF real effective exchange rate based on relative unit labour costs (non-normalised). A fall in the index indicates improved international competitiveness.

Productivity and competitiveness in manufacturing

In D-Mark* at current prices



* Using EMS bilateral central rates

A more level European playing field for labour costs

BRITAIN'S entry into the European exchange rate mechanism has transformed the economic background to this year's annual pay round. Employers can no longer expect a devaluation to bail them out if they concede higher wage claims than their European competitors. If UK unit labour costs grow faster in Europe, this will translate directly into squeezed profits, reduced exports and higher unemployment.

Yet at least one of Britain's leading manufacturing companies, according to its personnel director, will make no reference to European wage costs during its annual pay negotiations. Of course the European competitive threat will lurk in the background. But it is approaching this year's negotiations within a purely national framework, just as it always has. The rationale for this deliberate parochialism is based on two facts and one assumption. The facts are that while British wages in manufacturing are much lower than in Europe, wage costs per unit of output produced are not. The assumption is that any European comparison will prompt union negotiators to

push for German wage levels, with disastrous consequences for competitiveness.

The assumption that union negotiators might act in such a myopic and self-defeating manner is both depressing and, one hopes, incorrect. But the facts about relative British wages and productivity are right. The UK has one of the lowest paid and least productive manufacturing sectors in Europe.

Whether UK wages are low enough to offset this productivity deficiency at current ERM exchange rates remains controversial. If they are not, then Britain's unit labour costs are already higher than in the rest of Europe. Normally, international comparisons are made between rates of unit labour cost inflation. But these only measure changes in cost competitiveness. Whether Britain starts with a competitive disadvantage depends on relative unit labour costs at prevailing exchange rates.

It is possible to measure levels of unit labour costs expressed in a common currency. But they can be misleading, especially when they are made between

Europe and the US or Japan. But confining the comparison to European countries, and to manufacturing companies, removes many of the difficulties. In addition, ERM central parties are a good guide to the exchange rates European companies will face in coming years.

There has, in fact, been a striking convergence of unit labour costs in D-Mark. Italy has the highest unit labour cost in 1990 at DM0.79 per DM1 of output while France had the lowest. But the spread of DM0.04 was small compared to DM0.13 in 1985.

Germany has had the sharpest rise in unit labour costs since 1985, measured in D-Marks, while they have fallen in both Britain and France. In part, this reflects the appreciation of the D-Mark against all currencies over that period. The domestic currency value of hourly wages rose by 46 per cent in Britain and 39 per cent in Italy but by just 26 per cent in Germany. But the value of sterling fell from DM3.82 in 1985 to an ERM central rate of DM2.95 in 1990. As a result the average wage in Britain, measured in D-Marks, fell to 64 per cent of Germany's from 71

per cent in 1985.

Germany has also had slower productivity growth than its competitors since 1985. Real output per person, in domestic currencies, rose by 24 per cent in Britain, 17 per cent in France, 13 per cent in Italy and 11 per cent in Germany. The appreciation of the D-Mark did not offset this sluggish performance.

The result has been to remove Germany's cost competitiveness advantage within the ERM. The evidence does not suggest that existing UK manufacturers face a cost disadvantage compared to the rest of Europe at current exchange rates. Indeed, the playing field is remarkably level. But European companies remain essential for wage-bargainers in Britain and Italy. If wage inflation in these countries continues to outpace that in Germany, then Germany's advantage will quickly re-emerge. Unless, that is, higher wage inflation can be offset by faster productivity growth. Britain's miserable productivity level certainly suggests there is room for improvement.

Edward Balls

UNILEVER N.V.

DIVIDEND ON DUTCH CERTIFICATES OF FL1,000, FL100, FL20 and FL4 FOR ORDINARY CAPITAL ISSUED BY N.V. NEDERLANDSCH ADMINISTRATIE-EN TRUSTKANTOOR

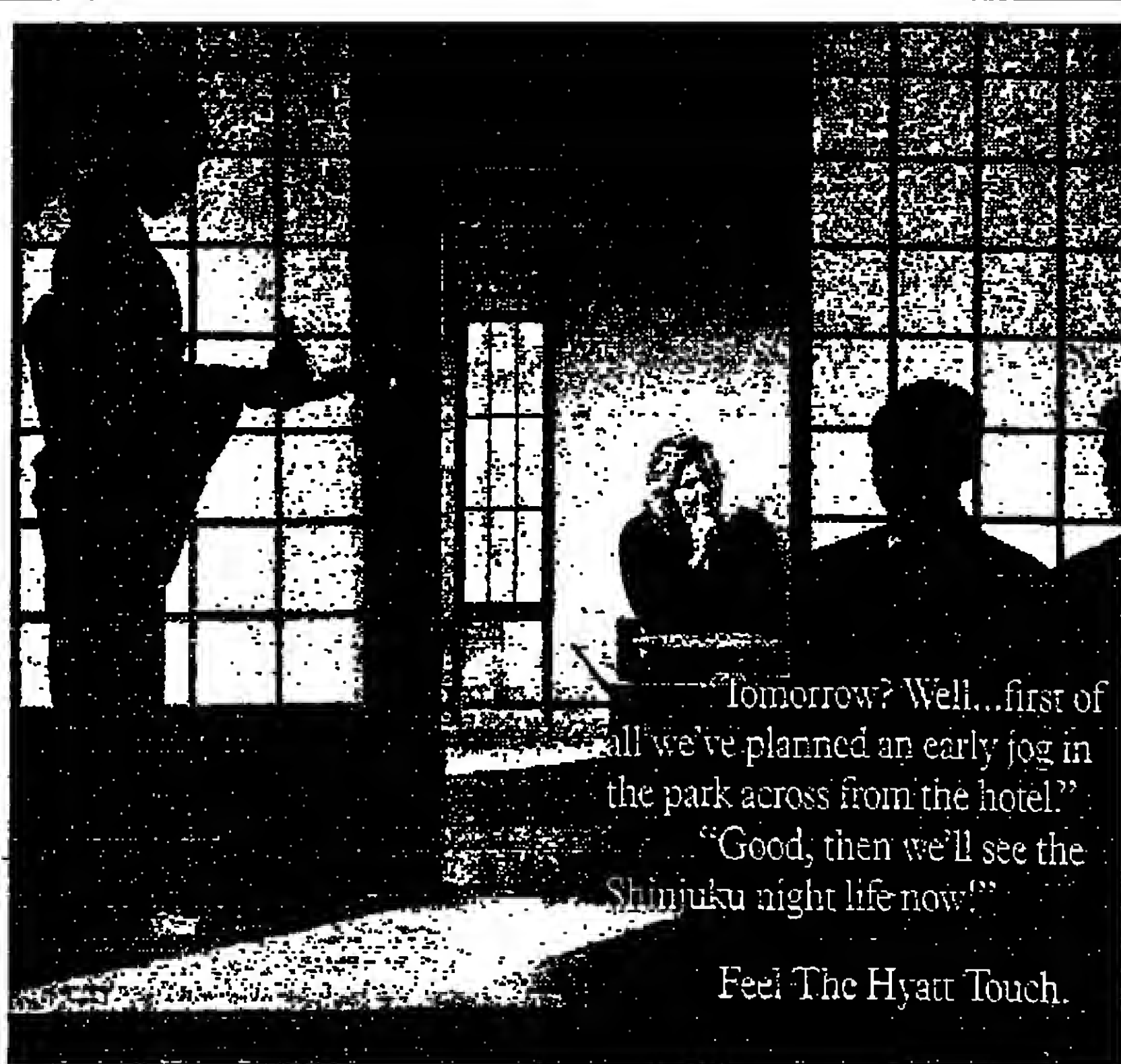
Interim dividend payments of FL1.48 per FL4 ordinary capital in respect of the year 1991 will be made on or after 15th December 1991 against surrender of Coupon No 9. Coupons may be encashed through one of the paying agents in the Netherlands or through Midland Bank plc at the address below; in the latter case they must be listed on the special form, obtainable from the Bank, which contains a declaration that the certificates do not belong to a Netherlands resident.

DUTCH DIVIDEND TAX relief is given by certain Tax Conventions concluded by the Netherlands. A resident of a convention country will, generally, be liable to Dutch dividend tax at only 15% provided the appropriate Dutch exemption form is submitted. No form is required from UK residents holding "K" certificates if the dividends are claimed from Midland Bank plc within six months from the above date. If the certificates are owned by a UK resident and are effectively connected with a business carried on through a permanent establishment in the Netherlands, Dutch dividend tax at 25% will be deducted and will be allowed as credit against Dutch tax payable on the profits of the establishment. Dutch dividend tax on this dividend is FL0.3700 at 25% and FL0.2220 at 15%. The proceeds from the encashment of coupons through a paying agent in the Netherlands will be credited to a convertible florins account with a bank or broker in the Netherlands.

UK INCOME TAX at the reduced rate of 10% on the gross amount will be deducted from payments made to UK residents instead of at the basic rate of 25%. This represents a personal allowance of credit at the rate of 15% for the Dutch dividend tax already withheld. No UK income tax will be deducted from payments to non-UK residents who submit an Inland Revenue Affidavit of non-residence in the UK.

A statement of the procedure for claiming relief from Dutch dividend tax and for the encashment of coupons, including names of paying agents and convention countries, can be obtained from Midland Bank plc at the address below.

N.V. NEDERLANDSCH ADMINISTRATIE-EN TRUSTKANTOOR
London Transfer Office, Midland Securities Services, Client Delivery, Stock Exchange Services, Suffolk House, 5 Laurence Pountney Hill, London EC4R 0EU.
8th November 1991.



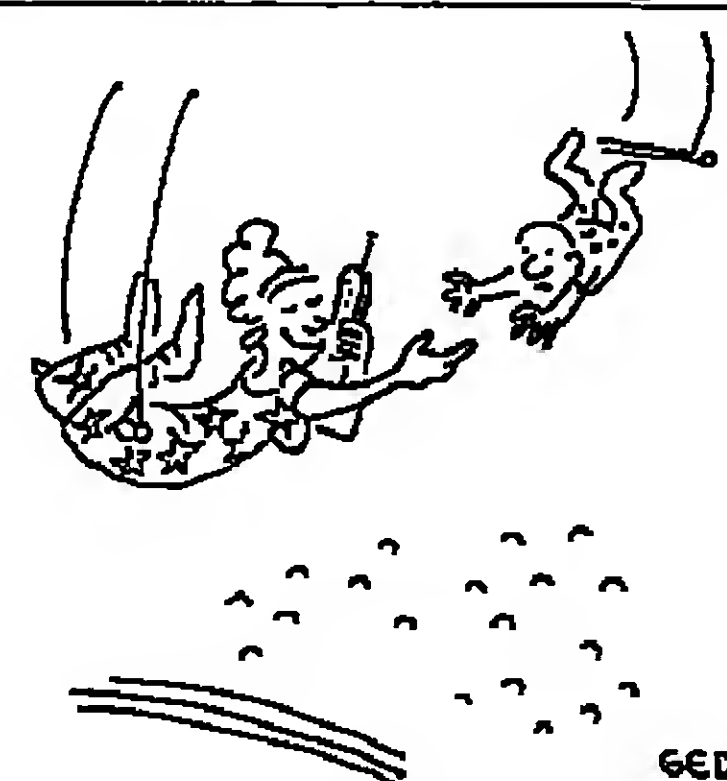
Century Hyatt Tokyo

2-7-2 Nishi-Shinjuku, Shinjuku-Ku, Tokyo 160, Japan.

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BCCI: BEHIND CLOSED DOORS

'This bank would bribe God'

PART TWO

The ruler of Abu Dhabi entrusted his

vast personal fortune to BCCI. The bank repaid the compliment by plundering over \$2bn of it, as the Financial Times reveals on its front page today. This fact is shocking but entirely in keeping with a bank whose founder was a man of breathtaking audacity and cunning

Nothing was ever straightforward with Agha Hasan Abedi, a man who insisted on paying bribes in crisp white envelopes. BCCI executives who managed the highest bank funds in history were expected to abstain from liquor, frequenting night clubs or marrying outside the Islamic faith. Abedi provided prayer rooms at the bank's headquarters in Leadenhall Street for his staff. And yet the same bank lavished sexual favours on its clients, on one occasion commandeering the entire red light district of Lahore to please a party of Gulf Arabs.

There is no simple key to the character of the first president of BCCI, but these aspects of the most unusual bank the world has ever known contain many clues.

The domed forehead with its burning eyes teemed with many different Abedis: the zealous Shia Moslem, the visionary, nurtured on the teachings of a much-loved poet-philosopher under the plumbeous and Third World champion bred in the dying days of the Raj.

But there was also the power-seeker for whom truth and falsehood, charity and influence-peddling were all often two sides of the same coin. And there was the man of iron will interviewed at his Karachi home earlier this year. Abedi told the Financial Times that "nothing is vast" - as if anything was possible given enough determination, which he had in abundance.

Overlying this powerful mixture was a legendary philanthropist and messianic. Abedi once held up a piece of paper at a conference for BCCI recruits in a Lahore hotel. He told his audience to watch the blob on it get bigger and smaller, which they did, transfixed. The paper was completely blank.

On another occasion, he stood before a hall full of young BCCI officers - Abedi called them "my children" - about to graduate from the Karachi training school, one of three run by the bank. For more than an hour he philosophised.

At the end of the lecture he asked the sea of faces what they thought. Only one voice spoke out. "Frankly, sir, I think all this philosophy is geared for one man's ego, and that's yours." A hush fell across the hall. Abedi walked over to the young officer, held up his hand and declared: "These are the people I want, people who speak their minds." The student was unimpressed - he left BCCI soon afterwards for another bank.

Abedi's mixture of mysticism and homespun ideas did not always impress his own people. One colleague who became increasingly sceptical about Abedi's references to "cosmic energy" was summoned to London. "He [Abedi] asked me: 'How many people believe my philosophy?' I said 'three'. He said 'three per cent?' I said, 'No, three'."

When it came down to it, Abedi could also be an outright charlatan. At one of his staff conferences, he delivered a ringing speech about the need for "involvement", a word he invented because it sounded nice. The lavishness of these conferences was legendary. The bank would take over an entire five-star hotel. There would be two days for shopping and two for conference sessions. There were usually five items on the agenda: humility, submission to God, giving, compassion and love. They were held in places such as Vienna, Luxembourg and Athens, and cost the bank between \$4m and \$5m apiece.

Despite being branded by many as an evil genius, Abedi remains revered by many people for his good deeds, particularly in the field of education which he believed to be a fundamental force for reshaping the world outlook.

His native Pakistan, in particular, sees Abedi as a Robin Hood figure

who provided jobs, scholarships and medical treatment to the poor and enabled impecunious Moslems to make pilgrimages to Mecca. "Certain people in this country are heroes, and Abedi is one of them," says Humayun Gauhar, the former editor of South magazine, which BCCI owned. "No mud will stick to his name."

South magazine, founded to examine Third World issues, frequently flattered leaders of countries to which Abedi sought admittance for BCCI.

Many of Abedi's good works, it is claimed, were done through the BCCI Foundation. But the reality, as with so much to do with Abedi, was rather different. The BCCI Foundation accumulated rather than distributed wealth. Little of its money went to helping people. Only in two of its nine years of operation has the foundation given away

unusual in this for banks in Asia and the Middle East, Abedi's largesse was larger-than-life.

The partition of India in 1947 led Abedi's family to join the flow of Moslem refugees to Karachi. Naseem Saigol, one of Pakistan's richest businessmen, tells how Abedi went to the Saigol family patriarch in 1968. "Abedi convinced my father that he should have a bank. Dad gave him a cheque for Rs10m [then £1.1m] and appointed my elder brother, Shafiq, as director with Abedi under him."

It was called United Bank, with the slogan "Progressive Banking", and it became the launch-pad for Abedi's later exploits.

However, it was the decision of the then President Bhutto to nationalise Pakistan's banks in 1972 that forced the young banker to expand his horizons. Prominent bankers, including Abedi, were placed under house detention.

In his sudden solitude, Abedi began to flesh out his long-nurtured plan for a bank that would act as a bridge between the Third and First worlds. It would also, he told visitors, be "the biggest bank in the world".

His first foray for financial backing was as obvious as it was inspired: the newly oil-rich Gulf sheikhs. They had the money Abedi needed and they were Moslems.

The sheikhs came over to the Baluchistan desert each year with their falcons and salukis to hunt and eat the *hambra* (bustard), the largest game bird in Pakistan. They believe it increases sexual potency.

The hunters and their entourages of about 100 would drive deep in the desert, splitting into separate parties with a jeep each. At dusk they would return to the camp fire and their white tents. Here, they were at their most relaxed and Abedi at his most persuasive.

Abedi had also met a Dutchman, Dick van Oenen, who was the Bank of America's representative in Pakistan with an office in the United Bank building. Through him, Abedi learnt that BofA was keen to enlarge its activities in the Middle East. The US bank agreed to put up the relatively small sum of \$250,000 as its contribution to BCCI's \$2.5m start-up capital. Bank of America also had a subsidiary in the then little-known and loosely-regulated banking centre of Luxembourg, which gave Abedi the idea of locating his bank there.

Thus in September 1972, in the five-star Phoenix Hotel in pre-civil war Beirut, BCCI was born. About 100 people met in the ornate ballroom around a rectangular table. They included Swaleh Naqvi, the now-disgraced former chief executive of BCCI, and Zafar Iqbal, who was later to succeed Naqvi. Abedi mingled among them.

Within a year, BCCI had six offices, in London, Luxembourg, Beirut and the Gulf emirates of Dubai, Sharjah and Abu Dhabi. By 1975, it had ballooned into a group with assets of \$2.2bn and \$113m of capital. It soon had 146 branches in 32 countries - including 45 branches in the UK, where it had become the largest foreign bank.

BCCI then split into two companies, one based in Luxembourg, the other in the Cayman Islands, then emerging as an offshore banking haven. Already, the bank was adopting the tactics of deception, fragmenting itself into obscure centres, and ensuring close links with



'The money arrived just in time,' said a relieved Kenneth Kaunda to Agha Hasan Abedi who visited Zambia with James Callaghan, the former UK prime minister

customers who could put large deposits at its disposal. Abdul Basir, head of the Pakistan operation, says: "We looked after clients in the most efficient, personalised manner."

Although Basir refuses to go into details, part of the answer is to be found inside the old city of Lahore. Under the shadow of the great walls, built more than four centuries ago by the Mogul emperor Akbar, lie the remnants of another once-great empire.

The Diamond Market is home to Lahore's famous dancing girls, who for centuries have provided entertainment for emperors and their courtiers - and latterly for politicians, Arab sheikhs and bankers. Shuttered during the day, the market is almost indistinguishable from Lahore's many narrow streets but for the occasional glimpse of a pair of sleepy almond eyes peering from a latticed upstairs window. At night it comes alive, the girls, often as young as 12, calling down to customers.

Dressed in gold-embroidered chifon harem pants and silks, the girls sway to stars music. The audience expects to be put money inside the girls' clothes (in olden days it was jewels).

BCCI's minions came here to procure the finest girls for the bank's best customers. The girls would be personally inspected by Zafar Iqbal, the local branch manager who married one of their number called Cham Cham.

Muzaffar Zeidi, former director of special operations in London who controlled the European affairs of some of BCCI's richest Gulf clients, says he often received calls in the early hours asking him to send large amounts of cash. "I knew

what it was for," he says. Zeidi retired from his post because, he says, "it wasn't the kind of thing I wanted to do."

BCCI's "can do" culture could be impressive. One Pakistani businessman was shopping in London one Saturday when he saw a £35,000 car. "I wanted it immediately, so I called BCCI and they turned up carrying the money in a plastic bag. That's what I call service."

"The bank," said one of its millionaire clients, "made me feel like a *billinaire* when I went to London."

Abedi was never afraid of thinking big. As an outsider he knew he could only act on the world stage if he had the help of world players. He had the skill and self-confidence to seek them out and draw them to him. He did this by identifying their strongest personal desires and then setting out to satisfy them. Abedi stalked his quarry and then spun a web round them through diligent courtship.

He supported Jimmy Carter's campaign to eliminate the guinea worm scourge. The former US president went on a tour of Africa in BCCI's corporate Boeing 727, refitted in 1985 with just 16 seats and a double bedroom. The tour may have or may not have checked the advance of the guinea worm, but the sight of Carter disembarking from the BCCI jet did wonders for the bank's local business.

In 1987, Abedi was back in Africa,

this time accompanied by James Callaghan, the former British prime minister, in support of a trust to send African students to Cambridge.

Zambia was in severe financial difficulties because the price of copper, its chief export, had plummeted. BCCI made a small loan to tide the country over. When the party landed in Lusaka, it was greeted by a relieved Kenneth Kaunda, then Zambia's president. "The money arrived just in time," he told the group.

According to two of Abedi's former executives, payments were made to Zimbabwean politicians in London during the 1979 Lancaster House negotiations on Zimbabwe's independence.

Both sides, said the executives, were "greased" because one would eventually gain power and would decide on a bank license. Soon after independence BCCI became the first foreign bank to be awarded a licence in Zimbabwe and the government even bought a minority shareholding in the bank.

Influence-peddling and deception also lay behind one of Abedi's largest strategic moves - into the US market, the ultimate source of political power.

The way he went about it was classic Abedi. He sought the help of key figures in Washington, men like Clark Clifford, former defence secretary and kingmaker of the Democratic party, who acted as his lawyer, and Bert Lance, Jimmy Carter's budget director.

Having obtained professional advice that BCCI might have difficulty obtaining permission to buy a bank, he then devised a strategy of subterfuge, involving the use of nominees to act as fronts - a venture in which his flair for secret deals and manipulation found full expression.

BCCI eventually acquired four banks, the largest of which, Financial General, was also the biggest bank in Washington DC, holding many of the personal accounts of the capital's most powerful figures - a fact which must have appealed to Abedi. Shortly afterwards he changed its name - rather misleadingly in the circumstances - to First American.

The nominees, according to the Federal Reserve's indictment, included several of BCCI's own shareholders such as Ghaffar Pharoan and Kemal Adham, the burly, white-haired ex-head of Saudi military intelligence who had recently fallen out with the Saudi royal family.

Both Pharoan and Adham are crucially important figures in the high-stakes poker game which Abedi played. The former provided business connections; the latter an inside track in Washington, where he has been a Middle East power broker of repute for years.

Another reason why Abedi wanted to buy into the US was that BCCI's relationship with Bank of America was not working out. The US bank had been pushed into a back seat role by Abedi's aggressive management. In 1976, Al Rice, BofA's executive vice-president, wrote in an internal memo: "We are just not operating on the basis of mutual trust and co-operation that make the whole effort and exercise worthwhile."

Tom Clausen, the bank's president and later head of the World Bank, who had never been happy about the deal with BCCI, agreed. BofA eventually sold out in 1980, though it remained BCCI's US clearing bank.

The BofA sale is significant for two reasons. First, the purchase of BofA's stake - on deferred terms

BEHIND CLOSED DOORS

Written by David Lascelles, with contributions from: Richard Donkin, Alan Friedman, Christina Lamb, Richard Waters, Richard Tomkins, Bernard Simon, Chris Tipton, Jimmy Burns, James Burton and Stephen Fidler

was none other than ICIC, a shadowy Cayman-based offshoot of BCCI. Second, it suggests that an aura of suspicion was already settling over BCCI by the late 1970s.

With hindsight, it seems extraordinary that Abedi should have succeeded in his subterfuge in a land criss-crossed by regulation. It took the Fed 14 years to uncover the true story, even though it had suspected a connection between some of the acquirers and BCCI from the outset.

The Central Intelligence Agency, which had long been using BCCI to fund some of its agents and covert operations, was one of the first to discover the truth. In 1985, it prepared a report on BCCI that confirmed the bank's secret and illegal control of First American. Mr Richard Kerr, acting CIA director, recently admitted in Senate testimony that the CIA's failure to inform the Fed of this important finding was "an honest mistake".

But in the end, Abedi underestimated the US regulatory and law enforcement agencies. They have since turned on him and his bank mercilessly.

In July, after a two-year inquiry by Manhattan district attorney Robert Morgenthau, a New York grand jury brought criminal indictments against the bank, Abedi and Nagvi for fraud, falsifying bank records, money laundering and conspiracy - the first criminal proceedings against BCCI since the shutdown.

Today, inside his 4,000 square yard compound in the affluent Karachi suburb of Clifton, Abedi sits in a pathetic figure. He sits in a stiff-backed chair in a two-storey house across the manicured lawn from his office, looking out across his beloved gardens, fingers twitching but body rigid.

Rabia, his 47-year-old second wife, and their daughter are constantly at his side, trying to fill his now empty hours. The third building of the compound is a bungalow for Abedi's 50-year-old mother.

The final, desperate struggle to stave off BCCI's collapse has taken a terrible toll. He has suffered two heart attacks and a stroke, which have left him with brain trauma and damaged vocal cords.

These days Rabia finishes his sentences for him. "Every day," she says, "I'm killed a little bit by watching it."

Abedi will never be extradited from Pakistan. He holds too many political IOUs. But even if he were to co-operate with the world-wide investigations into the bank's collapse, his health is so bad that he is unlikely to provide a coherent account of BCCI's history.

Mention of banking still brings a flush to the deep-set eyes behind heavy glasses, but as the conversation continues, he soon begins to ramble. Trapped inside that domed forehead are many of the secrets behind the greatest banking collapse the post-war era. He will probably take these to his grave.

■ Tomorrow: 'The \$1bn hole in the heart'

Abedi's home spun philosophy

AGHA HASAN ABEDI
PRESIDENT
BANK OF CARIBBEAN COMMERCE INTERNATIONAL SA.
20th June, 1985

Dear Naqvi,

Since I received your letter and the enclosed article, I could not get time to answer it. Time in its full sense does not become one's own time unless it is filled with attention leading to purpose.

You are right in observing that we have, during all these years, been trying to create and manage a "context" which to nothing but providing a new volume and direction to meaning. We, no doubt, all grew, shaped and changed the contents of life and purpose only in the world of our context and so do societies and organisations. BCC has, as you know, already created a powerful and all pervading context.

I have since used some expressions from the article of Professor Stanley A. Davis in explaining what we have been trying to say in so many words, ways and forms for so long. I admire your comprehension of this article and our context which we are jointly managing. In recognition I give you all my love. I must though say that the context is just a reflection of quality and meaning and I hope you would never forget that quality and meaning remain more of reality than they become an attribute of your energy, vibrating and flowing - flowing in torrents - overpowering mediocrity and defying defeat.

Release and flow of energy is absolutely necessary to manage the contents of the context and is the only route to success. Life has to be action packed and packed in the material of love and quality. In BCC it is a crime to be either mediocre or fail to succeed. It is even a worse crime if any one of us allows physical, intellectual or psychological lethargy to permeate into our energy system.

I feel no doubt about your innocence, purity, goodness and quality that God has blessed you with. You may need to produce much more action and an ability to create it all around you in order to become a top manager.

May God be always with you.

Yours sincerely,

Agha Hasan Abedi

Abedi was well known for his long-winded philosophising. This letter to the sort of Swaleh Naqvi, the

bank's chief executive, who was working in the New York office, captured some of the fervour

UK NEWS

Questions remain over death of Maxwell

By Peter Bruce in Madrid

AT LEAST one of the many theories surrounding the death of Robert Maxwell's death should be cleared up later this week. A toxicology laboratory in Madrid has been examining body tissue taken from the late publisher at an autopsy on Wednesday for signs of poison.

The report will go to the state pathologists on Gran Canaria who performed the autopsy. They will pass it on to judge Luis Gutierrez Sanjuan, a local judge who handled the investigation surrounding the body. Mr Gutierrez will pass the report to the judge handling the central investigation into Mr Maxwell's death - Judge Isabel Oliva. She is on Tenerife and this weekend ordered the crew of the Maxwell yacht, the Lady Ghislaine, to remain on the island until her investigation is complete.

Mystery continues to surround the death mainly, it seems, because of conflicting signals being sent out by the family and by conflicting advice by the Spanish authorities. Miss Ghislaine Maxwell, the publisher's daughter, said last week the family was very pleased with the Spanish investigation and strongly implied that the death appeared to have been an accident.

Her mother, Elisabeth, has since fanned the flames of speculation by saying that the death cannot be explained. It was Mrs Maxwell, however, who told the British consul on Tenerife that Robert Maxwell had suffered for a long time from water on the lungs which could place severe pressure on the heart.

Officials in the Canaries remain convinced Mr Maxwell died naturally and, possibly, of a form of heart or lung failure before he even hit the water. Attempts by the family and its lawyer on Tenerife to keep a final judgment open may have something to do with the fact that Mr Maxwell was insured for £20m against accidental death. His family are the beneficiaries.

The affair will have an end, however, in a courtroom on the Canaries - probably on Tenerife.

Thatcher poised for EC speech

By Alison Smith

SENIOR government ministers yesterday moved to play down the row over comments by Mr Nicholas Ridley, a former Tory cabinet minister, who advised voters opposed to closer EC union to back the opposition Labour party or other candidates who share their views.

Mr Ridley's comments at the weekend, however, have heightened even further interest in the possible intervention

by Mrs Margaret Thatcher, the former prime minister, in the Commons debate on Europe next week, as opposition parties kept up the pressure on Tory party differences on the EC. In a concerted campaign over the weekend, cabinet ministers said Mr Ridley was "talking at windmills" and that his remarks were "utterly misconceived".

And commenting on Mrs

Thatcher's likely course, Mr Michael Heseltine, the environment secretary, insisted she wanted above all else the re-election of a Tory government. In a television interview Mr Heseltine said that Mrs Thatcher "will not want to set herself apart from John Major. She shares his views on a broad range of philosophy and policy."

He also foreshadowed a line

likely to be taken by Mr John Major, the prime minister, when he opens the debate, in commenting on how Mrs Thatcher had taken the UK further into Europe than any of her predecessors.

Mr Paddy Ashdown, the Liberal Democrat leader, said, however, that Mrs Thatcher was like a "wounded tigress" ready to rip the Tory party apart on the issue of Europe.

CHANNEL TUNNEL

Delay in order for BR regional network

By Richard Tomkins, Transport Correspondent

BRITAIN'S regions will shortly learn details of British Rail's much-delayed plans to link them with the Continent after the opening of the Channel tunnel.

In the next few weeks BR will place orders for the day-time expresses and overnight trains which will run direct from the regions to Paris and Brussels.

However, the long delay in ordering the trains means that it will be 1994 before the night trains start running, and 1995 before the day trains appear.

Last week BR acknowledged for the first time that delivery of the London-Paris and London-Brussels expresses, already on order, was also running months behind schedule.

Ordinary British and Continental trains cannot run through the tunnel because they have to be compatible with different countries' signalling and train control systems. The result is that BR and its Continental railway partners will have no passenger trains ready to run through the tunnel if it opens on time in June 1993.

Ordering of the regional passenger trains has been made possible by last week's Autumn Statement which gave BR sufficient funds to go ahead and place contracts.

Seven daytime trains based on the 186-mph French train *a grande vitesse* (TGV) will be ordered from GEC-Alsthom at about £15m each. The trains will be almost identical to the London-Paris and London-Brussels expresses, but shorter to fit north-of-London railway platforms.

Originally BR had hoped to order trains which would split in half to serve a wider range of destinations, but technical problems have forced this plan to be abandoned.

Instead, one train will leave Edinburgh for Paris each morning, stopping at principal stations on the east coast main line as far as Peterborough and taking 6 hrs 15 mins. Another train will leave for Brussels, taking 6 hrs.

Plans for this train to be

joined by another coming from Leeds and Wakefield have been dropped.

On the west coast main line, one train will leave Manchester for Paris each morning, calling at principal stations and taking 6 hrs 15 mins. Another train will leave for Brussels, taking 6 hrs.

However, both these are likely to be diverted from the direct route to serve the West Midlands, because plans for

separate West Midlands trains joining the Manchester ones at Rugby have been dropped.

All trains will be mirrored by return journeys from Paris and Brussels in the late afternoon.

The night services will cover different routes. Three trains will leave each evening: one from Glasgow via the west coast main line, one from Swansea and one from Plymouth.



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Mortgage defaults, company failures at record level

LOWER interest rates and inflation will "take time" to reduce mortgage defaults and company failures, which have reached record levels in the 1990-91 recession, the Bank of England warns today writes Rachel Johnson, Economics Staff.

The Bank today released an analysis of the "unprecedented" rise in the incidence of defaults on loans by both

households and companies ahead of Thursday's quarterly bulletin. In the first half of 1991, company insolvencies reached almost 11,000 - compared with 6,549 over the same period last year.

Over the same period, 36,600 dwellings were repossessed, 0.4 per cent of the outstanding mortgage stock - more than double the number of repossessions recorded in the first six

months of last year. The Bank acknowledges that the combination of high interest rates and the recession has been the main cause of this sharp rise in defaults. But high levels of gearing have also been very significant.

It points out that in the 1980-81 recession there was a "more moderate" increase in company failures and mortgage arrears, despite higher

interest rates and a fiercer recession that then prevailed. Gearing is thus another important determinant of the rapid rise in default rates over this recession, it says.

On the personal side, the rise in mortgage defaults had been caused by the longer-term trend towards owner-occupation and financial liberalisation as well as high mortgage rates.

BRITAIN IN BRIEF



Japan backed by UK fund managers

UK fund managers are still backing Japan, as well as their home equity market and the prospects of the British Conservative party at the next general election. But their enthusiasm for equities has receded a little, and a significant number of them are more willing to invest in UK bonds than they were a month ago.

The upward re-rating of the Tokyo market has stumbled over the past two weeks. Yet, in a survey of 100 UK leading fund management groups conducted one week ago for Smith New Court, 48 per cent were still planning to increase their holdings of Japanese shares compared with 63 per cent a month earlier.

CAA eliminates UK consortia

Two British consortia, led by GEC and Dowty Command and Control Systems, have been eliminated by the Civil Aviation Authority from the bidding for a contract for advanced air traffic control equipment worth an estimated £700m. Four consortia were asked to bid in the first stage for the New en-route centre. The CAA has chosen consortia led by IBM of the US and Thomson CSF, the French state-owned company, to compete in the second phase.

Low pay awards

Finance staff in British companies received their lowest annual pay increases during 1991 for eight years, and the number who changed jobs dropped sharply, in further evidence of the impact of the recession published in a survey today.



Three former prime ministers (left to right) Margaret Thatcher, Lord Wilson and Edward Heath at the Cenotaph in London yesterday during the Remembrance Day ceremony commemorating Britain's war dead

Review of hospitals urged

The government is being urged to use its review of London's hospital provision as an opportunity to modernise medical education and make Britain into the European centre of excellence for modern medicine. Under the proposal, all future medical education and research in the capital would be concentrated on four colleges of London University.

Regional income tax call

The regional assemblies which the Labour Party is pledged to introduce should be financed by a regional income tax, according to a discussion paper from the Fabian Society, which is affiliated to the party.

The paper says that the creation of a regional tier of government should be a priority for a Labour government. It adds that with the EC increasingly directing social and economic assistance through regional structures the UK is ill-equipped to stimulate appropriate investment through "sub-national governments".

Satellite users increase

More than 100,000 new satellite dishes were installed last month - the largest monthly rise since the merger of British Satellite Broadcasting and Sky Television a year ago into BSkyB. The figure, produced by the FT Satellite Monitor, means that there are now 1.2m homes in the UK with satellite dishes apart from those who receive the new satellite channels. Pearson, publisher of the Financial Times, has a significant stake in BSkyB.

Campaign to lift Scots pay

A campaign to raise the pay of 400,000 workers in Scotland to a minimum £3.40 an hour is to be launched by GMB, Britain's second biggest union.

Indemnity premiums rise

Indemnity premiums for accountants are expected to rise as the profession faces a growing amount of litigation, according to the annual report of one of the UK's leading mutual professional indemnity companies.

The number of claims paid or outstanding was up 82 per cent to £234,000 in the year to June 30, 1991 for the Mutual Accountants' Professional Indemnity Company (MAPI), which provides professional indemnity insurance to about 800 small and medium-sized accountancy firms.

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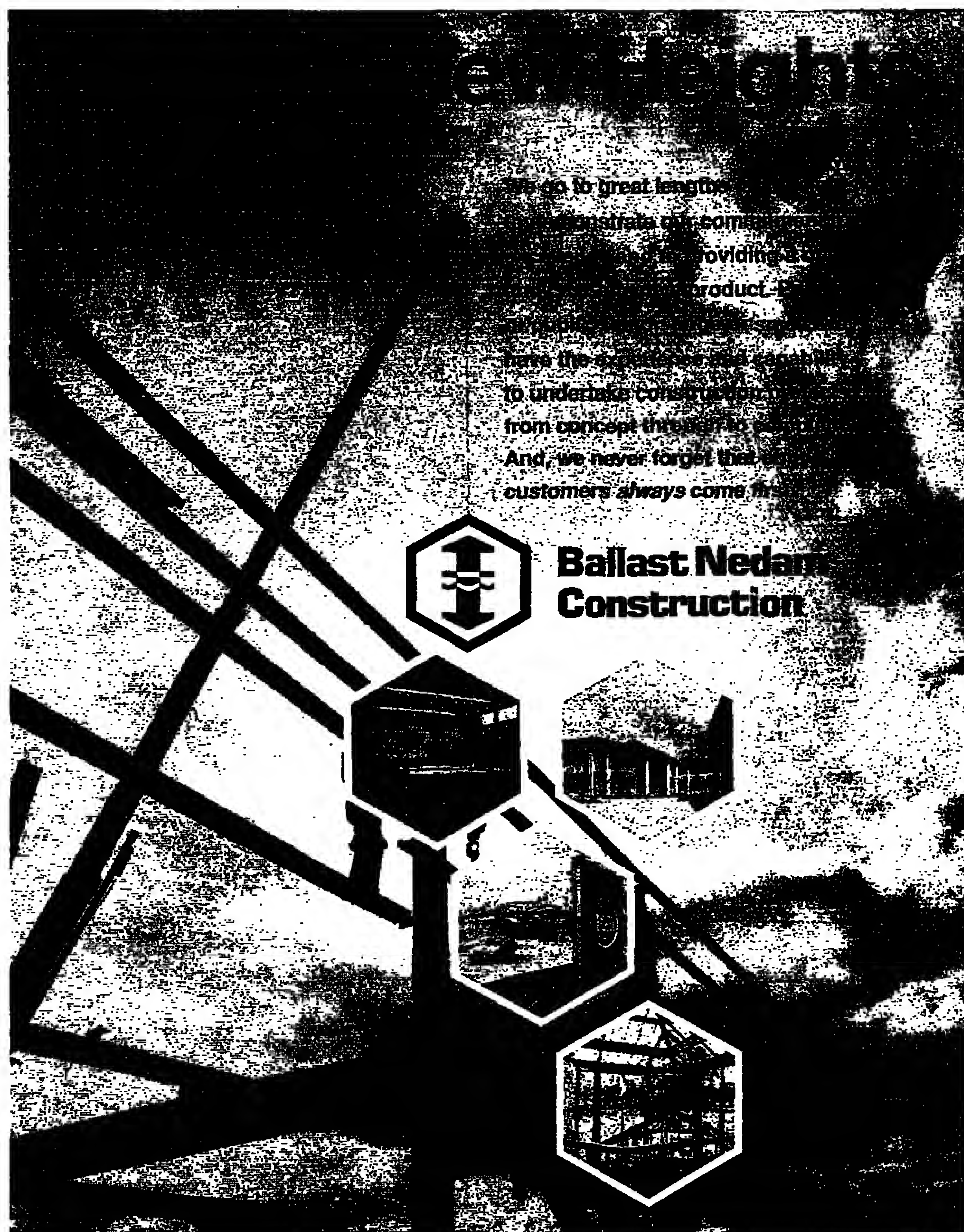
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Ballast Nedam Construction

Design and build contracts worth over £3m have been obtained by PORTAL CONSTRUCTION of Higham Ferrers, Northamptonshire.

At Westbury Lane, Newport Pagnell, Portal is to build a residential home, contract value £710,000, for Coventry Churches Housing Association. By mid-1992 the building will house 30 frail elderly people in single bedrooms with en suite WCs and showers.

The Scott Bader Company has awarded a £1.0m contract to create a central warehouse and distribution centre at its Wollaston, Northamptonshire headquarters. The steel framed, brick clad building, nine metres to the eaves, will provide 30,000 sq ft of warehousing space and 6,500 sq ft of offices.

German frozen food distributor Elsmann Home Services has appointed Portal to refurbish and remodel the former Stewart & Lloyd/British Steel Corporation training centre at Corby. The £800,000 contract calls for the re-ladding, re-glazing and refurbishment of a three-storey building to form offices. An adjacent single-storey structure is to be remodelled to provide living accommodation for Elsmann's franchisees under training together with leisure facilities which include a swimming pool.

Developer Rowlinson has awarded a £400,000 contract to build a 6,000 sq ft shop for Mac's Stores at Duston Neighbourhood Centre, Alsace Park, to plans and elevations by Art D & C of St Albans.

At the Sanders Lodge Industrial Estate, Rushden, Northamptonshire Portal is to alter and refurbish two buildings to provide workshops, offices and a warehouse for the Lockertis-based transport company Blue Band. The building, which is to be converted into a warehouse, is to have a new floor inserted four feet above ground level to ease tail end loading of trucks.

Ballast Nedam Construction Ltd.,
Prospect House, 19-21 Homesdale Road, Bromley, Kent BR2 9LY.
Tel: 081 464 4111 Fax: 081 466 5911

Offices also at: Westbury (Wilts), Cardiff, Leeds, Stockton-on-Tees and Glasgow.

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CONSTRUCTION CONTRACTS

Major council housing upgrade

Hundreds of council homes throughout the country are being brought up to modern standards for local authorities by TAEMAC CONSTRUCTION'S contract housing division.

The division has won orders worth £6.5m from seven housing authorities. A £1.2m contract has been awarded by Gloucester City Council for the improvement of houses, and residential blocks are to be refurbished at Craighill, West Lothian for Livingston Development Corporation at a cost

of £1.3m.

Another contract worth £1.4m is for refurbishing houses at Dewsbury for Kirklees Metropolitan Council, and at Hull, maisonettes and flats are to be converted to sheltered housing for the City Council at a cost of £1m.

Other housing contracts include roof repairs and structural work to blocks of flats for Leicester City Council (£680,000); window replacements and general repairs to dwellings for Wigan Borough Council (£520,000); and the

modernisation of council houses at Donington, Lincolnshire for South Holland District Council (£400,000).

Other contracts include road works and a roundabout, costing £1.8m, at Bruce Street, Swindon for Tarmac Properties; a £980,000 extension to Bradfords Bakery at West Bromwich in the West Midlands; the refurbishment of the galley at Seaton Naval Barracks, Plymouth (£500,000); and extensions to pumping stations at Crocrose for Wessex Water Services (£250,000).

Refurbishing estates in Birmingham

WIMPEY CONSTRUCTION MIDLANDS has been awarded two contracts, totalling \$8m, by Birmingham City Council to refurbish large estates in the city.

The first, at Nazareth Estate in Longbridge, forms part of an environmental control experiment being carried out by Professor Alice Coleman - aiming to demonstrate how residents' quality of life can be dramatically improved by changing

design features.

Work involves refurbishing 124 council homes and building 26 new houses and bungalows in a year-long contract due for completion next October. The project also includes demolishing two blocks and constructing 12 houses for private sale in conjunction with Wimpey Homes.

Wimpey's second contract involves refurbishing four blocks of maisonettes in

Erdington. Repairs and alterations will be undertaken externally and internally to the eight-storey properties on the Wyndy Birch Estate.

Externally, the work involves repointing and replacing defective brickwork, removing balconies, recovering flat roofs and installing new windows. Inside the properties will be completely rewired and redecorated. The project is due for completion in April.

Pharmaceutical manufacturing facility

LAING SCOTLAND has won the \$4.5m construction contract, phases three and four, for the protein fractionation centre of the Scottish National Blood Transfusion Service in Edinburgh.

The contract involves an extension and refurbishment. Completion of phase three is scheduled for September 1992 and the finishing date for phase four is June 1994.

The centre, on the southern outskirts of Edinburgh, is the pharmaceutical manufacturing facility of the Scottish National Blood Transfusion Service.

Human plasma, derived from voluntary blood donations at regional blood transfusion centres, is transformed at PFC into a range of life-saving products sufficient for the needs of Scotland and Northern Ireland. Construction includes ware-

housing, packaging, labelling workshops and office accommodation. The building will be of steel frame construction with coated aluminium wall cladding and insulated roof decking.

Alterations to the existing building will be phased to suit the employer's needs and to maintain the continued operation of the centre during the alterations.

£3m workload for Portal Construction

Design and build contracts worth over £3m have been obtained by PORTAL CONSTRUCTION of Higham Ferrers, Northamptonshire.

At Westbury Lane, Newport Pagnell, Portal is to build a residential home, contract value £710,000, for Coventry Churches Housing Association. By mid-1992 the building will house 30 frail elderly people in single bedrooms with en suite WCs and showers.

The Scott Bader Company has awarded a £1.0m contract to create a central warehouse and distribution centre at its Wollaston, Northamptonshire headquarters. The steel framed, brick clad building,

nine metres to the eaves, will provide 30,000 sq ft of warehousing space and 6,500 sq ft of offices.

German frozen food distributor Elsmann Home Services has appointed Portal to refurbish and remodel the former Stewart & Lloyd/British Steel Corporation training centre at Corby. The £800,000 contract calls for the re-ladding, re-glazing and refurbishment of a three-storey building to form offices. An adjacent single-storey structure is to be remodelled to provide living accommodation for Elsmann's franchisees under training together with leisure facilities which include a swimming

pool. Developer Rowlinson has awarded a £400,000 contract to build a 6,000 sq ft shop for Mac's Stores at Duston Neighbourhood Centre, Alsace Park, to plans and elevations by Art D & C of St Albans.

At the Sanders Lodge Industrial Estate, Rushden, Northamptonshire Portal is to alter and refurbish two buildings to provide workshops, offices and a warehouse for the Lockertis-based transport company Blue Band. The building, which is to be converted into a warehouse, is to have a new floor inserted four feet above ground level to ease tail end loading of trucks.

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Leeds plan

J B GREATOR & PARTNERS, a Capita Group subsidiary, has been awarded a contract to design and supervise the installation of all the engineering services involved in the \$50m Phase I redevelopment of Leeds General Infirmary.

Greator has been commissioned to handle all mechanical, electrical, lift and public health services for a new building linking the main infirmary with one of its wings.

The building will house the West Yorkshire cardiothoracic service, the accident and emergency department, intensive care beds, neurosurgery, theatre and x-ray facilities.

It will free the existing building for refurbishment as part of Phase II, worth a further \$50m.

Mechanical services

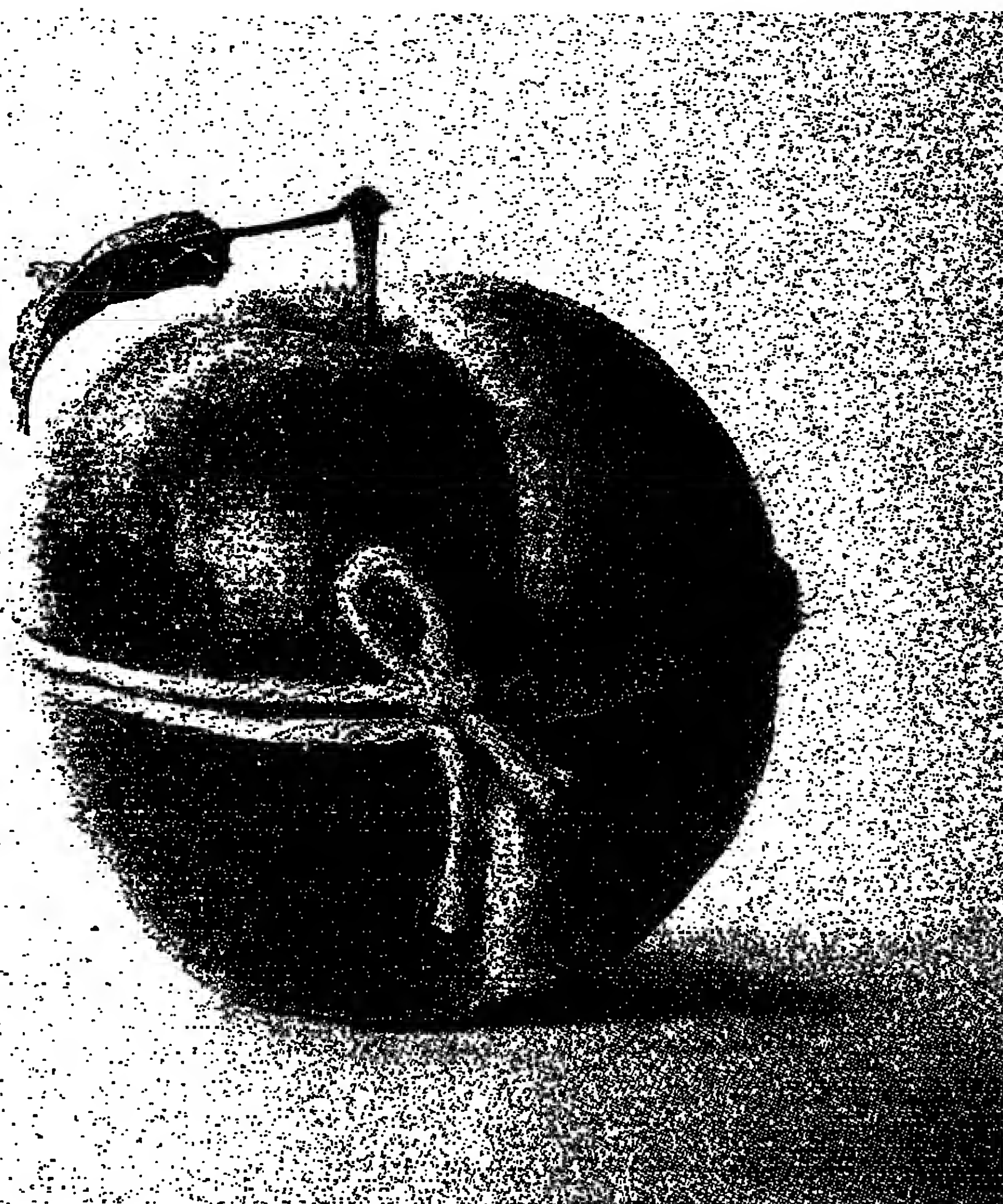
MATTHEW HALL MECHANICAL & ELECTRICAL ENGINEERS has recently been awarded a £4.5m contract to install mechanical, electrical and wire engineering services for Ericsson Telecommunications at Burgess Hill in Sussex.

The 175,000 sq ft development, which is a part new, part refurbishment project, comprises offices, computer suites, leisure facilities, a restaurant, conference rooms and some laboratories.

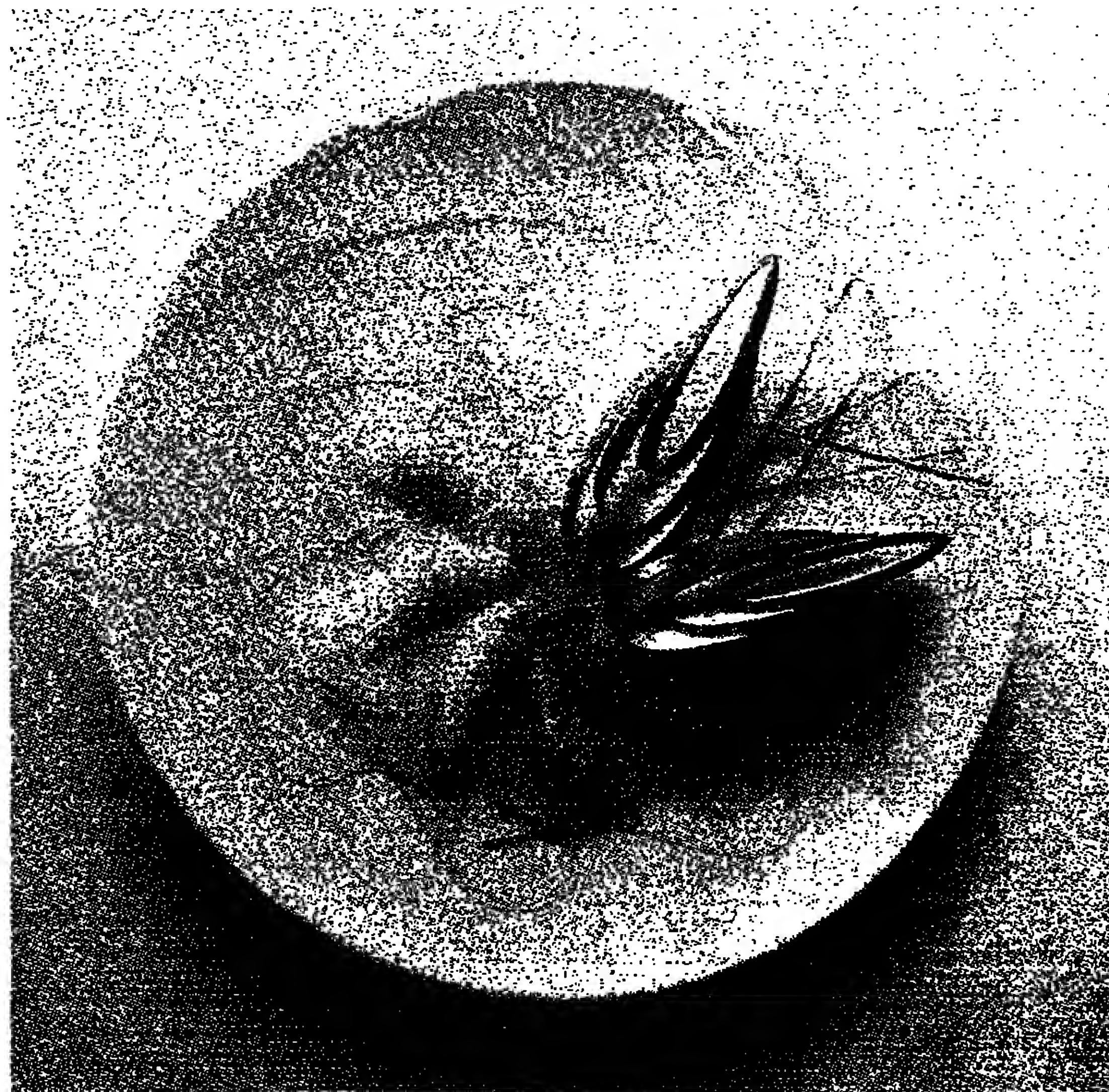
The seven month contract is due for completion in early 1992. Matthew Hall is part of the international construction, engineering and development group AMEC.

Foundation work

A \$5m contract for piling and foundations at Drax power station near Selby, north Yorkshire, has been awarded to MOWLEM CIVIL ENGINEERING, a division of John Mowlem Construction, by National Power. The work comprises the final phase of foundation construction and the manufacture and driving of the last 1,000 pre-stressed concrete piles for the flue gas desulphurisation project.



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THE WEEK AHEAD

ECONOMICS

Treasury claims will be put to test

IT IS a week thick with UK economic indicators, starting with credit business today and ending with the retail price index on Friday.

These and all statistical releases in between - which include industrial production and factory gate price data - will be measured against the latest forecasts for the UK economy presented by the Treasury in the Autumn Statement last week. Data will be judged as lending support to - or undermining - the chancellor's claim that a recovery is currently underway with consumer spending rising to 2.5 per cent in 1992 following a 1 per cent drop this year.

With spending the expected impetus for recovery, all retail sales figures will be scrutinised for evidence that volumes are building up higher than last year's levels. On the inflation front, the markets are expecting the continued rise in unemployment - with another 45,000 expected for last month - to continue to dampen pressures. The retail price index is expected to be rising at an annual rate of 3.5 per cent in October compared with September's 4.1 per cent.

On the international scene, the Bank of Japan is expected to move the discount rate down half a point to 5 per cent, following the lead set by the US Federal Reserve last week.

Other notable events and statistics, with median market forecasts from MMS International, the financial research company, include:

Today: France, Belgium, all markets closed. Germany, federal government decides on interest taxation proposal.

10.30am. ■ **WEDNESDAY** Commons: Asylum Bill, (second reading). Motion on Social Security Adjudication Regulations.

Lords: Debate on Unemployment. Question to Government on Sex Offenders in Prisons.

■ **TOMORROW** Commons: Conclusion of the Local Government Finance Bill. Timetable motion on the legislation.

Lords: Nurses, Midwives and Health Visitors' Bill. Second reading. Motion on the Tobacco Products Labelling (Safety) Regulations.

Witnesses: Archie Hamilton MP, minister of state for the armed forces (Room 15, 10.50am).

Energy - renewable energy. Witnesses: Wind Energy Group; Wind Energy Association; Yorkshire Electricity Group plc (Room 8, 11.00am).

Education and Science - scrutiny session. Witnesses: Lord Griffiths, chairman, School Examinations and

Assessments Council (Room 18, 4.15pm).

Health - maternity services. Witnesses: Royal College of Obstetricians and Gynaecologists; Royal College of Midwives (Room 21, 4.15pm).

Public Accounts - review of Pollution Inspectorate. Witnesses: Sir Terence Heiser, Department of the Environment (Room 16, 4.15pm).

Transport - preparation for opening the Channel Tunnel. Witnesses: Euronet tunnel officials including chief executive Sir Alastair Morton (Room 17, 4.15pm).

Trade and Civil Service - subject, banking supervision and BCCI. Witnesses: Association of Metropolitan Authorities; Association of District Councils; Convention of Scottish Local Authorities; Local Authorities Co-ordinating Committee (Room 15, 4.15pm).

Home Affairs - electoral voting methods. Witnesses: Home Office

officials (Room 8, 4.30p). Procedure - review of European standing committees.

Witness: John MacGregor MP, Leader of the Commons (Room 7, 5.00pm).

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MANAGEMENT

Packing a punch the American way

Martin Dickson reports on how ANC has been integrated into the industrial culture of Pechiney



At first sight that might seem unremarkable. But the racquet-wielding executive, Jean-Pierre Ergas, is not only French but also an employee of the Paris government - in his role as senior executive vice-president of Pechiney, the state-owned packaging and metals group.

Pechiney acquired Chicago-based American National Can, the world's largest packaging group, in November 1988. But Ergas, who became chief executive of ANC, has lost no opportunity since then to stress a simple message to his American staff, underlined afresh by the tennis match: the company may now be French owned, but its heart remains American.

"We knew that if we wanted to succeed with this acquisition," says Ergas, "we had to do things the American way."

The ANC takeover is one of the most important in a spate of French acquisitions in the US. Three years down the road, the Ergas approach does seem to be succeeding, defying the sceptics who said Pechiney had paid too much and would find its French industrial culture clashed with that of the American business.

Indeed, another attempt to mingle Anglo-Saxon and French management styles in packaging has gone famously sour. Metal Box of the UK and Cernard of France pooled their interests into CMB, which has suffered endless acrimony.

Contrary to more macho theories of management, the Pechiney deal seems to be succeeding partly because of the French company's slow, deliberate approach to change and its relatively light management touch.

It was vital for Pechiney to integrate ANC successfully, for the \$3.5bn (£2bn) deal was a big gamble for the French company, the world's third biggest aluminium producer. The aim was to move it from its base in its aluminium processing base and shift it from the huge swings of the metals cycle.

Pechiney already had a packaging business in Europe, called Cebel, but this was too small an industry becoming increasingly global. The ANC purchase makes packaging - which is fairly recession resis-

him some important qualifications for running the group: he already knew packaging, having been head of Pechiney's existing operations, and he knew the US, having spent four years in the country while earning an MBA from Harvard and working for Howmet, a Pechiney subsidiary.

Pechiney immediately made clear that corporate headquarters would remain in Chicago. The company kept its name, and got a new logo. ANC kept its own board, with a large complement of Chicago worthies, while Ergas put his children into local schools and plunged into good community works. Other initiatives have included better performance-related pay incentives for managers and a more comprehensive executive training and appraisal scheme.

Ergas is proud of the fact that in the months after the takeover, his senior managers received several job offers from rival companies, yet none was lured away.

Amid all this bridge-building, Pechiney has also taken action to improve ANC's productivity by closing 10 of its least efficient plants and shedding 3,000 jobs. At the same time, it has kept up capital investment, spending some \$300m a year to build new plants and upgrade existing ones.

Equally important, Pechiney's expansion into packaging has helped re-define roles in the US between the various elements in the metal can manufacturing chain - the raw material suppliers upstream, the can-makers in the middle, and the beverage companies makers downstream.

Food and drinks companies in the US have been consolidating, placing greater buying power in fewer hands. And the drinks market has been growing more global, with manufacturers looking for deals with

fewer can suppliers who meet their technical requirements around the world. Ergas's new management structure for Pechiney's packaging division - put in place in April 1990 - responds to these pressures.

The beverage can business, which accounts for just over 40 per cent of ANC's sales, has been organised as a global business, as have the group's packaging operations for the even more international cosmetics industry.

However, ANC's food and glass beverage container operations retain separate US and European divisions, reflecting consumers' much less homogenous tastes in food. Ergas has also boosted the R&D effort - the ANC budget has risen 25 per cent since the takeover where Pechiney's expertise in metallurgy could pay big dividends in can design.

ANC is already testing in the US market a new "fluted" can with indented sides - which is meant to be more satisfying for drinkers to hold. The link with Pechiney has also been important in ANC's relations with suppliers of raw materials.

ANC's procurement has been centralised in a team which negotiates with the US and Europe the next - and takes advantage of Pechiney's knowledge as an aluminium manufacturer.

ANC still faces potential problems. In common with other US manufacturers, labour relations could prove delicate at some of its high wage cost plants, and there is always a danger of it getting sucked into a price war with major competitors.

Analysts say it still needs to cut inefficiencies out of its manufacturing operations and that, despite the consolidation of the packages, the beverage companies still hold the upper hand in price negotiations.

Did Pechiney pay too much? Ergas acknowledges that its \$3.5bn outlay represented some 15 to 16 times annual income, when the average US packaging company was on a ratio of 12 to 13.

However, Ergas also points out that in the second year after the takeover, operating profits had risen to a respectable 10 per cent of the purchase price, and he insists that the premium was worth paying, given ANC's market position.

After all, it is not every day you can wake up to find yourself the world leader in a growing industry, albeit one that lacks glamour.



Steve Shirley: "You need skills to run a business, which are not skills I could ever have"

Sowing seeds of success in the job market garden

Lucy Kellaway meets this year's BIM Gold Medal winner

"I HOPE you are not going to dwell too much on the role of women in business," says Stephanie "Steve" Shirley, looking severely over the top of her half-moon glasses.

Steve Shirley, who today was the British Institute of Management's Gold Medal for "outstanding achievement", would rather discuss those achievements on their own merits.

She joins the great and the good of British industry including Sir Christopher Hogg, Sir John Harvey-Jones and Sir Robert Scholey, and while she is the first female to have won the award, she dispenses with any suggestion that she is a token woman.

"I've taken an original idea - which, if I say it myself, was brilliant - into a mature organisation." That idea was to tap the skills of women computer programmers who were at work from home. On that basis, she founded the FI Group 30 years ago, and has built it into a company with a strong reputation for its flexible work practices as for success in software.

"I've always thought of myself as a gardener," she says, although what she grows is not plants, but people. While she spouts all the fash-

ionable clichés about people being a business's most valuable asset, she has been saying that for decades, and has been doing something about it too.

When it emerged a few years ago that some of her 1,000 staff would rather not work at home, FI established "neighbourhood work centres" at motorway intersections that are open nights and weekends.

Unlike other entrepreneurs, she seems to have managed the difficult transition from a small company to a large one. "I am a believer in professional management. You need particular skills to run a business, which are not skills I could ever have."

Seven years ago, she handed over the daily management of the company to Hilary Cropper, and is now distancing herself further by selling part of her stake in the company to the workers in a bid to change the group's culture.

"We tried everything. I gave out shares, then set up a trust, but it did not work. It still felt like a family company." Now three quarters of the staff have bought shares, as have a third of its subcontractors.

She talks grandly about the "concept of empowerment", but gets cross if you suggest that means getting staff to

participate in running the company. No, she says, "empowerment is the embodiment of a change. People want to have power in their own hands, to make decisions regarding where they work, when they work and what they do."

Shirley will doubtless be spending more of her time promoting such ideas through her heavy extra-curricular list of activities. Times have changed since she left ICL and started calling herself "Steve" in the hope that people would take her more seriously as a seller of software.

But big business still has a long way to come, and women are still leaving large organisations because the structures are too rigid.

She sees herself as "a role model for younger women entering the work force," and seems happy playing the part of grand dame.

What does she think of projects like Opportunity 2000? Shirley looks sceptical. "I don't think the prime minister recognises that a 30-year-old woman with home responsibilities is more mature than her male counterpart. It behoves businesses to provide the flexibility that we've always done."

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The FT Pink Pocket Diary with its unique landscape format, week to view diary and FT pink pages is bound in black bonded leather.

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The Improved FT Slimline Pocket Diary. Covered in black bonded leather with FT pink paper and matching ribbon, the FT Slimline Pocket Diary's fortnight to view format allows you to check your comings and goings at a glance. The new overseas and U.K. information guides make it ideal for the executive on the move.

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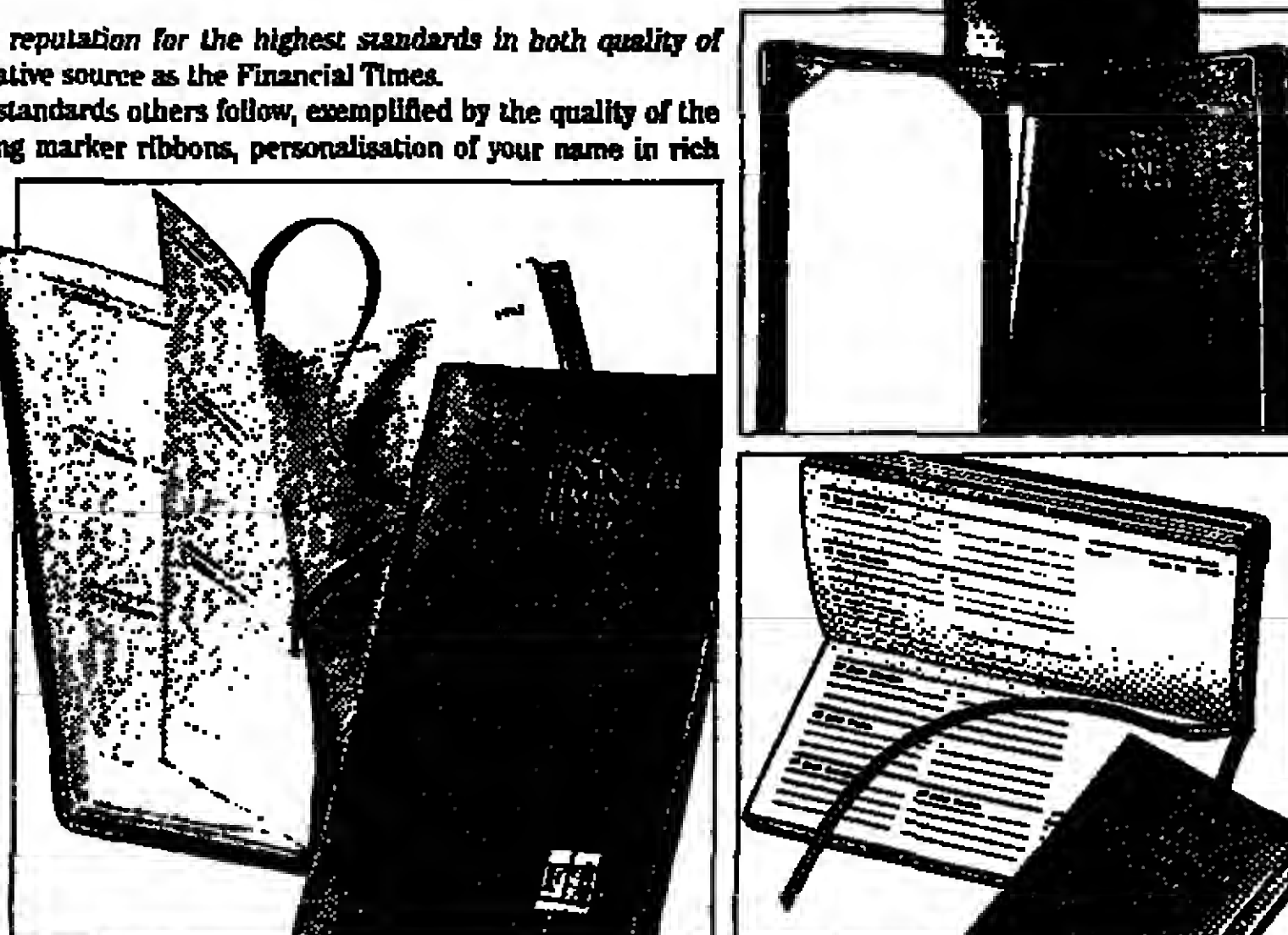
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APPOINTMENTS

The land of Peugeot and Lea & Perrins

THE West Midlands Development Agency (WMDA) has recruited John Watson, a Leeds-born Francophile, to sell the region to French companies.

Hitherto represented in Germany, the US and Japan, the WMDA was a product of the last recession at the beginning of the 1980s. There are currently 700 foreign companies employing 100,000 workers in the West Midlands and the agency is keen to step up its inward investment programme.

"The French are currently the largest overseas investor in Europe and have selected the UK as one of their priority areas," says Watson. Sixty French companies have already pitched their stall in the area including Peugeot and the food group BSN, now in the unlikely function of producing the Englishman's HP and Lea & Perrins Worcester sauce.

Watson, who has lived in France for 15 years, previously represented the Telford Development Corporation which, because of the finite life of new town projects, was wound up in September. "The Rhone-Alpes area corresponds pretty closely to the west Midlands," he says - though he presumably discounts the scenery.

Although operating from Lyons, his search will be country-wide; the two sectors where he particularly hopes to woo significant numbers of investors are auto components and computer software.

A chartered engineer turned marketing man, the 60-year-old Watson maintains a long string of consultancies, and supports an office in Barcelona as well as Lyons. Indeed he has just given up a professorship in the city's first female director.

Getting an audience with French companies he does not already know is easy - "they're sufficiently curious about an Englishman with good French". The harder part follows later.

Turner returns to Rolls-Royce

ROLLS-ROYCE has appointed Richard Turner to the new position of group marketing director to strengthen the company's marketing structure at a time of fierce competition in both the aero-engine and industrial power markets.

The new appointment follows the company's reorganisation earlier this year into two core businesses: the aerospace group and the industrial power group. Turner's task is to co-ordinate the marketing of the company's two business groups.

He returns to Rolls-Royce after three years with STC, the electronics company, where he was group marketing director; he worked for Rolls-Royce from 1965-88, latterly as commercial director of the company's civil aero-engine activities.

UNITED BISCUITS announces that Terry Standard is to become md, continental Europe and Asia Pacific; Andy Green, md group services; Howard Brookman, is to become European manufacturing planning director for McVitie's; David Garman is to join KP Foods from Ross Youngs as European manufacturing director.

Non-executive directors

Joe Palmer has been appointed to the main board of HALIFAX Building Society. Palmer, who is 60, recently retired as director and group chief executive of Legal & General. He was chairman of the Association of British Insurers from 1989 to 1991.

Baroness Eccles of Moulton has been appointed to the NATIONAL & PROVINCIAL Building Society. She is the society's first female director.

Jeremy Marshall, chief executive of De La Rue, has been appointed to JOHN MOWLEM.

Paul Bosonnet, deputy chairman of BOC, has joined Mercury Asset Management Group.

Ray Wheeler, formerly chairman of Myson and an associate director of GEC, joins M&P.

Tom Bennett is joining LONDON SCOTTISH BANK.

Christopher Haines, chief executive of the Jockey Club and former chairman of the UK Sugar Merchants Association, joins YORKSHIRE FOOD GROUP.

David Haynes has been appointed chairman of Hewitt Group.

LETTER FROM NEW YORK

Sentimental Broadway

Arthur Miller protests too much. The American playwright was quoted in *The Times* recently as saying that he could not bear to have his new play, *The Ride Down Mt. Morgan*, premiered on Broadway because London was so much more hospitable and he didn't want to be "the only play in town".

Perhaps I am lucky. I saw two fine plays in New York last week, one new, one old, a fascinating musical-in-the-making and came to understand why some Americans flock to New Simon in a way that Britons will not.

On the face of it, the similarities are more apparent than the differences. Four of the main musicals currently running on Broadway are also running in London: *Miss Saigon*, *Les Misérables* and *The Phantom of the Opera*. *Peter Pan* is coming up for Christmas. Two recent London shows have recently transferred: Harold Pinter's *The Homecoming* and the Abbey Theatre's production of Brian Friel's *Dancing at Lughnasa*, the latter having received a paning in this week's *New Yorker*.

If you look around, however, there is not only hope but enthusiasm. As a city, New York is even more economically depressed than London. Yet the theatre audiences continue to pour in. "I came here to be cheered up," is a frequent refrain at the interval.

Not that the therapy always works. "I know it's good," said someone of the musical, *Nick & Nora*. "I just feel so guilty I can't keep my mind on it." And the gentle, mopey, sophisticated comedy *On Borrowed Time* the lady in front of me left at the interval saying that the last thing she wanted to hear about was death. If there is a common theme, it is sentimentality, the emotional props are children, animals and guns, but there is also a great deal of style.

Nick & Nora is the ambitious musical-in-the-making. An article in last Sunday's *New Yorker* chronicled the multi-million dollar fund-raising that has gone into it. The show has been previewing at the Marquis for weeks. It was due to open officially yesterday, but the date has now slipped to early December. Since it is Broadway's only original musical in the current season, you can see how much is riding on it.

Based on Dashiell Hammett's sleuths in *The Thin Man*, it is potentially a musical on the grand scale: a thriller with a plot so complex that you really have to think. The story is being simplified as the previews go on. Meanwhile, it has some wonderful moments as Nick (Harry Belafonte) the detective, with his for-terrier, and his socialite bride Nora (Joanna Gleason) compete to try to reconstruct the crime and establish the motives.

The setting is Hollywood, 1937. All the glamour and glitter of the best Hollywood movies are there: costumes, sets, dancing, martini-mixing, the occasional sharp bit of dialogue and social comment. At the end there is genuine suspense. But ultimately, I think that *Nick & Nora* will not make it to the top because the music by Charles Strouse is not quite strong or distinctive enough.

Paul Osborn's *On Borrowed Time* at the Circle in the Square Theatre is a rediscovery. The play was a Broadway hit in 1938 and subsequently became a movie. Sentimentality cradles, but it remains a remarkably deft piece of work.

The idea was taken from a novel by L.B. Waikin about a boy whose parents were killed in a car crash and who was entrusted to his grandparents. Grandmother promptly dies leaving the boy, Pud, with his grandfather (Gramps) who is also dying. The key to the plot is Gramps's defiance of Mr Brink, the police barterer of death. Gramps gets Mr Brink trapped up an apple tree, so that there can be no more deaths until Brink is released.

The play is full of light symbolism and marvellous incidental music, like the tapist aunt, Demetria, who wants to claim Pud for his inheritance, and the local doctor who finds himself out of his depth when death loses its sting. It is staged by George C Scott, an old Eugene O'Neill hand who also plays Gramps for everything he is worth.

Would the piece translate to London? The sentimentality might get in the way and it would have to be at least as well-staged as it is in New York. Circle in the Square is the best theatre in the round I have ever seen. Yet for the Royal Shakespeare Company or the National it should be a risk worth taking. The role of Mr Brink, played here by Nathan Lane, is a delight. Demetria harks back to Ben Jonson. On *Borrowed Time* is very funny as well as subtle and touching.

The best new play is equally sentimental, and also looks backwards. *For the Cause* by Howard Zand by Israel Horowitz is a two character drama about an English and music teacher in Gloucester, Massachusetts who tended to fink his students for not being perfect. An old man now, he lives on his own, listening to music, until he hires a girl to look after him.

She turns out to be one of his failed students, as indeed were all the members of her family. Her mother, we learn towards the end, was the teacher's mistress, though he failed even her for being a poor student.

Here, I think, is an example of the American work that would cross the Atlantic with difficulty. The sentimentality goes too far, ending in the inevitable peaceful death and reconciliation. Nevertheless, if you want to see a well-made American play, recently done, with funny lines and clever use of music, see this production at the Music Box. Jason Robards as the teacher deserves the standing ovation he receives from the packed house; so does the admirable Judith Ivey as the former student.

The play I did not like was Neil Simon's *Lost in New York*, which has been running at the Richard Rodgers Theatre and has already received a Pulitzer Prize. The *New Yorker* says it all in its thumbnail sketch: "There's not one glimmer of honesty or authenticity in this family melodrama in the second act."

The piece is very intense and very Jewish. Some people say that it also contains jokes. It is about a family whose mother, having been malnourished by the Germans, becomes more Prussian than the Prussians in taking it out on her own children. Rosemary Harris plays the mother. Jewish New York has been leaping it up and there are claims that Simon has achieved a new sentimentalism. An accountant who has just lost his best client told me at the interval that it really cheered him up. I dissent, but *For the Cause* is not the only play on Broadway.

Malcolm Rutherford

Kathleen Battle and Luciano Pavarotti in Donizetti's *L'Elisir d'Amore*The Met's new *Elisir*

Every 30 years or so, since 1904 when *L'Elisir d'Amore* reached the Metropolitan Opera with Sembrich, Caruso, and Scotti, the company has put on a new production of the opera. In 1930 (with Gigli, De Luca, and Pinza), in 1960 (with Söderström), and last month (with Kathleen Battle and Pavarotti). The old but still serviceable 1930 production, rather too hard and bright, which I've seen house fine performances by Judith Blegen, Carreras, Bergonzi, has been replaced by a very ugly new version, designed by Benj Montresor, largely in reds and yellows, and produced by John Copley. Steep stairs and a principal acting area pushed upstage make it unhelpful to the singers, and so to the opera.

The opening night was unhelpful, in tone and in approach, coarsens

a role that many tenors - Schipa, Gigli, Tagliavini, Di Stefano, Bergonzi - sang with distinction late into their careers. *Elisir* is a comedy, but a comedy of character, touching and true - a *Furber* with a happy ending. Nemorino is funny, but he amuses us *con tenerezza*. Pavarotti wins open laughter from his adoring audience when he enters successfully in-hand to sing "Una furtiva lagrima" - and misses the point that it's not a sad but a joyful, triumphant aria. Donizetti's Nemorino is not about to leave: "lagrima" is not the key word; "l'amore" is. And with the joyful realisation that Adina loves him is mingled a kind of awe that she should do so.

Battle was a mannered, unspontaneous, careful Adina. Having a husband, her resources, she then sang the

soprano's final aria, "Prendi per me," with more generous emission and considerable art - and Pavarotti managed to punctuate her efforts by laughter at them, through his reactions, especially when she at last emitted a ringing high note.

Juan Pons was a blunt Belcore, without vocal swagger. Enzo Dara, the billed Dulcamara, fell ill, and his cover was a cipher. Marcello Panni conducted with a kind of metronomic flail, insensitive and unfeeling. Pavarotti had a good moment or two, melting note into note, or pronouncing a word vividly. Battle controlled a tiny, stringy, but sweet-toned voice with skill. In sum, it was yet another dismal Met evening in which a good opera was given unworthy performance.

Andrew Porter

La traviata

FRANKFURT OPERA

This new production is notable on two counts. Violetta is Margaret Marshall's first Verdi role, and reveals a hitherto untapped vein of passion in her artistic personality. The staging is also unusual for the way the Austrian film director Axel Corti updates the action to the Vichy era.

In 1941 Corti was a boy in occupied Paris. Although he didn't know opera, at the time the tune he heard hearing most from the barrel-organ men was "Amami, Alfredo". When he was first taken to the Opera, it was to *La traviata*. He recalls *Impression* by her artistic personality. The stalls and the sweet scent of the ladies, and during the overture, the orchestra obligingly piped up with his favourite tune. That is the starting point for Corti's Frankfurt staging.

Violetta is a glamorous French actress who inhabits the fun-loving world where the arts mix with wealth and high society. But she is Jewish and has TB. Doublt, a German general, acts as her protector in return for services rendered: at the end of Act one, after the party has been broken up by an air-raid siren, he slips back to have his way with her. Germont is a Pétainist industrial baron whose fortune depends

on keeping the Nazis sweet. The rural idyll at the start of Act two turns out to be a Normandy beach villa, and the interior is laden with the kind of furniture (degenerate art) the Nazis so despised. By the final act, Violetta and Anna have got hold of papers to flee Paris, and are in the grubby waiting-room of a main-line rail terminus.

To his credit, Corti understands that *demi-mondaine* means refined but permissive society, and his designers (Bert Kistner and Gaby Frey) have responded with tons of late 1930s style. But the staging is fundamentally flawed because *La traviata* does not fit the story Corti wanted to tell. Verdi's opera is about love, sacrifice and song. Corti seems more interested in semi-autobiographical incidents of wartime Paris - refugees creeping in to polish off the party food during "E strano", the Gestapo and their dogs trawling for undesirables during "Parigi, o cara". Corti also misjudges the large set-pieces, because he views the stage with the eye of a film director: while Violetta is walking around in Act one, for example, the chorus stands gawping like a bunch of off-camera extras.

Miss Marshall's classically

beautiful, unfailingly musical Violetta has the poise for the first half of the evening, but not the vulnerability for the second. At times she tries too hard, at others she lets the music pass for little. She is at her best in the second act, where she combines emancipated composure with feminine virtue. Although the voice sounds stretched at the end of Act one, there is little to suggest this is a heavier role than we are used to hearing from her. Few sopranos bring such Mozartian clarity and control to the coloratura, or Bellinian legato to the long melodic arcs.

She is partnered by the tenor Dino de Domenico, not much colour to the voice, but no bad habits - and David Pittmann-Jennings' excellent Germont. Silvio Varviso proved a sensitive accompanist, though the orchestral sound in the new refurbished theatre is harsh and bright. While everyone at the Frankfurt Opera may be relieved that the theatre is finally functioning properly, it is a pity that the character of the house has been altered: the plush blue postmodern fittings, with steel mesh ceiling and balcony facades, sit awkwardly on the auditorium's traditional design.

Andrew Clark

Opera 80

CONGRESS THEATRE, EASTBOURNE

The lot of touring opera companies in these islands is unhappy. They are doomed to play in some cheerlessly unsuitable buildings. One such is the Congress Theatre at Eastbourne, a poor relation of the Festival Hall, with the leg end "Festival of Britain" stamped on the exterior and on the auditorium - wide, high, poor for sound, a discouraging concert-hall, near-lethal for opera.

All the same, Opera 80's visit last week with *The Magic Flute* and *Albert Herring* suggested that more adaptability and flexibility on the directors' part might have helped. *The Flute* in Stephen Medcalf's production first given last February, revived now by Daniel Dooner, drew a poor house on the Tuesday. The translation by Jeremy Stans, under-projected, made little impact. Over the stage proceedings there lay a pall of English gentility. In that huge space characters addressed one another naturally as if we weren't there. Movements and gesture were dull and inexpressive.

The pleasant-voiced Papageno, Peter Langham Evans, was the most genteel of all. We know by now about the Brotherhood of Man, deeper levels of meaning, and so on, but the *Flute* is rooted in popular theatre. No-one expects an English Papageno to keep an audience eating out of his hand like a Viennese comic playing Nero or Raimund (successors of Schikaneder), but unless contact is made on the ground level there is not much chance of reaching the heights.

On Friday *Albert Herring* drew a larger, more responsive audience. The production by Clare Venables was first given during the opening week of the present tour. East Anglian local colour is deliberately avoided. Unfortunately there isn't much apart from

There were peculiar features. So much black in Anthony Baker's interesting but dispiriting set and costumes - is black the best way to convey Enlightenment? Nicholas Cavallier's young, shiny-haired Sarastro vocally and verbally made a stronger impression than anyone else. Yet he and his equally black-robed attendants suggested not goodness so much as a rather sinister sect or secret society.

The Queen of the Night was Penelope Randall-Davies, her second aria strong and full, her dialogue a dead loss. In a smaller theatre one might have warmed to the sweet little Pamina (sensibly sung) of Lisa Tyrrell and the vulnerable Tamino of Andrew Tusa. Gwynnor Morgan's Papagena engaged directly and successfully with the audience, but by then it was too late. Consolation came from the crystal-clear playing of the company's small but expert orchestra. Conductor Charles Feebles used fast tempo, for which, in an opera in the past too often swamped by reverence, there is much to be said, notably where Sarastro is concerned. Only the March in act 2 (for a moment I mistook it for the forrest "Tea for Two") and the duet for two priests were implausibly rushed.

On Friday *Albert Herring* drew a larger, more responsive audience. The production by Clare Venables was first given during the opening week of the present tour. East Anglian local colour is deliberately avoided. Unfortunately there isn't much apart from

Ronald Crichton

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THEATRE UPSTAIRS

Sexual fantasy is a dangerous commodity in the theatre for all sorts of more or less obvious reasons. For a start, a play lacks the distancing apparatus of a novel or a film. The performers, real people, have to act it out within a fictional construct that suddenly seems wafer-thin. You cannot skip the page or hide it under the mattress. Actors and audience are utterly exposed to each other and their own responses. In the case of this prolix and defiant piece by the American writer David Greenspan, the responses range from boredom to bafflement, intrigue to indignation, sometimes all at the same time.

Within the dramatically austere structure of talking heads, Greenspan creates his own bizarre distancing mechanism. The homosexual fantasies of a

male writer scribbling at the back of the stage are voiced by a woman sitting at the front of it. His efforts to pen a libidinal epic are repeatedly thwarted by the insistence of his own libido. In a monologue that is wholly and repetitively explicit, the woman recounts the sexual adventures of a young gay of the pre-Aids generation - so promiscuous that he cannot remember his lovers' names and their own.

In the second half, the tables are turned. A man in a shower takes us through 25 years in the life of a heterosexual woman. Almost incidentally, it emerges that one of her friends has been tested HIV positive. The fantasy of the first half combines with the reality of the second to reflect how the cataclysm of Aids impinges on an ordinary life.

Claire Armitstead

Bryan Adams

Wembley Arena

History makers are often quite unimpressive types who march in tune to the beat of the mass-making masses. So it is with Bryan Adams, who has achieved a pop record unparalleled by the Beatles, Presley, Madonna, even Bonanza. Adams is a man who has rolled 16 weeks at the top of the singles charts with the romantic ballad "Everything I do for you".

Before it goes to the young Canadians' head, Adams will have pointed out that sales of singles are currently as rare as sales of houses and the fact that Adams had to overhaul Slim Whitman for his place in the record books rather than being a popular taste.

Not that Adams shows any

signs of hauteur. On view at the Wembley Arena on Friday he came across as the guy in the jeans advertisement who gets the girl - and the quiet admiration of his fellow men. He is such a nice chap that on previous nights he had hauled on film to share the stage for a spot.

Somewhat record buyers have latched on to his basic wholesomeness and they gave him a reception that would have turned the head of a saint. I have never seen Wembley so pleased with its star and with itself. A packed crowd, nicely balanced in sex and age, gleefully indulged in football chants and in a mutual orgy of love and appreciation. The atmosphere was ecstatic.

Antony Thorncroft

INTERNATIONAL ARTS GUIDE TODAY'S EVENTS

AMSTERDAM

Concertgebouw 20.15 Borodin Quartet continues its cycle of string quartets by Shostakovich. Tomorrow: Yuri Temirkanov conducts the Leningrad Philharmonic Orchestra, plus a song recital by Ely Arneling. Wed and Thurs: Wolfgang Sawallisch conducts the Royal Concertgebouw Orchestra. Sat: Jeffrey Tate conducts Mozart's *Salmo*. Sun: Nikolaus Harnoncourt conducts the Concentus Musicus Wien (6718 345).

Musiktheater 20.15 Ballet gala with soloists from the Stuttgart Ballet, the Paris Opera Ballet and the New York City Ballet. There will also be contributions from members of the Dutch National Ballet and the Krizziana de Chatelet dance group. Tomorrow, Thurs and Sun: Johannes Schatz's production of *Fidelio*. Wed, Fri, Sat: Sankai Juku, Japanese Butoh dance group (6255 455/credit card bookings 6211 383).

BERLIN

MUSIC Staatsoper unter den Linden 19.00 Zar und Zimmermann, comic opera

by Lortzing. Tomorrow: Giselle. Wed: *Madame Butterfly*. Fri: *La Cenerentola*. Sat: *The Taming of the Shrew*, ballet by John Cranko. Sun: Lohengrin (East Berlin 2004 762).

Komische Oper 19.00 Rolf Reuter conducts Harry Kupfer's production of *The Barber of Seville*. Tomorrow: *Der Freischütz*. Wed: Swan Lake. Thurs: Rolf Reuter conducts symphonic music by Hans Pfitzner. Fri: *La bohème*. Sat: *Idomeneo*. Sun: Orfeo ed Euridice (East Berlin 2292 555).

Deutsches Oper 19.00 Marcello Viotti conducts Don Giovanni, with a cast led by Andreas Schmidt and Inga Nielsen, also Fri. Tomorrow: Die lustigen Weiber von Windsor. Wed: Das Rheingold. Thurs: Aida. Sat: choreography by MacMillan. Bejart and Balanchine. Sun: Die Walküre (West Berlin 3410 249). Schauspielhaus 20.00 Hartmut Haenchen conducts the CPE Bach Chamber Orchestra in an all-Mozart programme, with Peter Schreier tenor soloist. Tomorrow: Berlin Philharmonic Chorus in music by Bach, Bruckner and Reger. Thurs, Fri and Sat: Claus Peter Flor conducts the Berlin Symphony Orchestra. Sun: Rattle conducts the Berlin Philharmonic (East Berlin 2272 261).

Philharmonie Kammermusiksal 20.00 Daniel Barenboim conductor and soloist with the Berlin Philharmonic Orchestra in Elgar's *Serenade for Strings*, Bartok's *Divertimento* and Mozart's *Piano Concerto No 17*, repeated tomorrow and Wed (West Berlin 2614 383).

THEATRE East Berlin: the Volksbühne has a new production of Chekhov's

early play *On the High Road* on Fri and Sat, directed by Horst Havemann (222 3394). The Berliner Ensemble has Schwanhauß tomorrow and Sun. The Threnopony Opera on Thurs and Galileo Galilei on Fri (2827 712). The Deutsches Theater repertory includes Goldoni's *Servant of Two Masters* on Thurs, Peer Gynt on Fri and Turgenev's *A Month in the Country* on Sat (2871 225), with G.B. Shaw's *Heartbreak House* at the Kammertheater on Wed (2871 225).

The Maxim Gorki Theater has Shakespeare's *As You Like It* tomorrow and Sun, and Peter Shaffer's *Amadeus* on Thurs and Sat (2822 748). West Berlin: the Theater des Westens has the first German production of Stephen Sondheim's musical *Follies*, daily except Mon (3190 8193). The Schaubühne has Luc Bondy's production of *The Winter's Tale* tomorrow, Wed and Sat (890223). The Schiller Theater has Lessing's *Minna von Barnhelm* on Wed and Sun, and Goethe's *Iphigenie auf Tauris* on Fri (3195 238).

THE HAGUE

This week's events include a Nederlandse Dans Theater production tonight, featuring new choreographies by Mats Ek. William Forsythe, Hans van Manen and Jiri Kylian. On Thursday and Friday, the company presents two world premieres by Amanda Miller, plus Hans van Manen's 1971 ballet *Grosse Fuge* (360 4830). Tomorrow at Dr Anton Philipszaal, Willem Brunning conducts the Residentie Orchestra and Cantamus Alati in Bruckner's *D minor Requiem* and Rossini's *Sabat Mater*. Saturday's

concert consists of Franck's *Beauxes*, and on Sunday John Alcala conducts the Netherlands Chamber Choir in music by Britten and Poulenc (360 9810).

LONDON

Guidhall School of Music and Drama 19.00 Prokofiev Festival: Mstislav Rostropovich conducts Stephen Medcalf's new production of *Betrothal in a Monastery*. Repeated on Wed and Fri, also next Mon and Wed (071-638 8891). Covent Garden 19.30 John Dew's production of Les Huguenots, with a cast including Richard Leech and Angela Denning, also Fri. Tomorrow and Sat: Solo conducts Simon Boccanegra. Thurs: Fokine's *Les Sylphides* and three other ballets (071-240 1066).

Royal Festival Hall 19.30 Yehudi Menuhin conducts the Royal Philharmonic Orchestra in music by Elgar, Delius and Beethoven, with Gill Shaham soloist in Bruch's *Violin Concerto*. Tomorrow: Neeme Jarvi conducts the Philharmonia. Wed: guitar recital by John McLaughlin. Thurs: Kenneth Klein conducts Gershwin, Barber and extracts from Showboat. Sat: Rozhdvestvensky conducts the Stockholm Philharmonic (071-928 8500).

Arlecchino 19.45 Maxim Shostakovich conducts the Jerusalem Symphony Orchestra in music by Beethoven, Shostakovich, Ben Haim and Dvorak. Tomorrow: Elisabeth Soderstrom and the Nash Ensemble. Wed: Christoph Eschenbach plays Mozart with the ECO. Thurs: Rostropovich conducts Prokofiev, Sat: Jessye Norman

(071-638 8891)

NEW YORK

Blue Note Jazz Club and Restaurant Tonight's guest artist is Rene McLean, with shows at 21.00, 23.00 and 01.00. From tomorrow till Sun, the Blue Note's Fusion Extravaganza continues with Larry Carlton, with music from 21.00. Next week: The Zawinul Syndicate (131 West 3rd St, 475 8592).

Chicago B.L.U.E.S

A new club featuring Chicago-area blues artists working with their regular Chicago blues bands. The Aron Burton blues band plays tonight and tomorrow. Music begins after 21.00 (73 Eighth Ave, near 14th St, 255 7373).

Ritz Guiterri Al Di Meola is scheduled to play tomorrow, followed on Wednesday by a rare club appearance by Santana, and the well-established band known for their impeccable, beautifully-constructed pop tunes (254 West 54th St, 541 8900).

UTRECHT

Vredenburg 20.15 Monica Huggett is director and violin soloist with the European Community Baroque Orchestra in works by Farina, Biber, Bonporti, Schmelzer and Vivaldi. Tomorrow: Amsterdam Bach Soloists play concertos by Bach and Forster. Wed: Barbara Nissman plays piano music by Prokofiev. Fri: Antoni Ros-Marba conducts the Netherlands Chamber Orchestra in music by Mozart and Beethoven. Sat: Edo de Waart

conducts Mahler (314544)

VIENNA

Staatsoper 19.30 Berislav Klobucar conducts Der fliegende Holländer, with a cast led by Robert Hale and Ingrid Haubold. Tomorrow: ballet evening. Wed: Don Giovanni. Thurs: Der Rosenkavalier. Fri: Così fan tutte. Sat: Salome. Sun: Fidelio (51444 2980).

Volksoper 19.00 Kaiman's operetta Grafin Mariza. Tomorrow: Wiener Blut. Wed: Der Freischütz. Thurs and Sun: Der Graf von Luxemburg. Fri: Die Fledermaus. Sat: Die Csárdásfürstin (51444 3318).

Musikverein 19.30 Heinz Wallberg conducts the Tonkünstler Orchestra in music by Mozart and Beethoven, with an alternative programme on Wed. In the Brahms-Saal, the Clemencic Consort gives a concert performance of Johann Joseph Fux's *Giunone placata*, marking the 250th anniversary of the composer's death. (505 8190). Konzerthaus 19.30 Wien Modern: Hans Zender conducts the Ensemble Modern in music by Harrison Birtwistle, George Benjamin and Messiaen. Tomorrow: Fischer-Dieskau recital. Thurs: Grace Bumbury sings Brahms, plus Bert Furrer conducts Birtwistle. Fri: Arleen Auger and Murray Perahia. Sat: Michael Glien conducts Birtwistle. Messiaen and Schnittke. Sun: John Eliot Gardiner conducts Handel's *Agrippina* (7124 6860).

European Cable and Satellite Business TV (all times CET)

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Superchannel 2130-2200 (Tues) East Europe report - weekly financial report from FT 2130-2200 (Wed) FT Business Weekly - the latest roundup of business news with James Salini and Debbie Middleton 2130-2200 (Thurs) Talking Heads Sky News 1200 International Business report 1120 1730 2130 0430 0530 (Thurs) FT Business Weekly

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FINANCIAL TIMES

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Monday November 11 1991

Regulating the regulators

THE GOVERNMENT'S aim of making utilities such as gas, water and telecommunications deal better with customers' complaints is commendable. So too are simple systems of redress which offer cash compensation when things go wrong. And independent and binding arbitration when customer and utility fall out is clearly desirable in the absence of effective competition.

However, it is not at all desirable that this ombudsman role should be carried out by the regulator, as the government proposes in the Competition and Service (Utilities) Bill published on Friday. The regulator has a quasi-judicial role, determining the utility's pricing formula in the light of information on its rate of return and the need to promote greater competition. He can build quality criteria into his judgments, and specify non-financial targets such as energy-saving or social objectives. But handling complaints and arbitrating in disputes are very different functions.

Indeed, making the regulator act as an ombudsman could reinvent the sorts of conflicts which bedevilled ministers responsible for nationalised industries; the goal of better services was all too frequently obscured by the desire to minimise politically contentious price rises. Better to let the regulator regulate and set up an ombudsman with the same way as counsel for interested parties speak at statutory tribunals.

With these powers separated, it is possible to imagine public hearings at which advocates of individual and corporate user interests could be invited to question witnesses in the same way as counsel for interested parties speak at statutory tribunals.

Light touch

The UK model of light touch regulation based on competition over prices by a named individual has been a largely successful spin-off from the privatisation programme. A steady stream of visitors from North America have found much to commend it in comparison with their own bludgeoned regulatory bureaucracies. The publication of the new bill, however, offers an opportunity to re-evaluate the role of regulators. Seven years after the birth of

Ofel, new questions arise. Questions, most obviously, about the transparency of the decision-making process, raised recently by Ofel's silence over its plans in the run-up to the BT share offer. Questions about the accountability of regulators, given the well-rehearsed dangers of regulators getting too close to their charges on the one hand and political interference in the regulator on the other. Questions about the overall supervision of regulators, and the role of bodies such as the Monopolies and Mergers Commission in reviewing their work.

Exposing evidence

Improving the transparency of regulation requires at the very least some form of public exposure of evidence. The information upon which the regulator makes his decisions and the criteria which he uses should be available to the public domain. In some circumstances, it will be necessary to protect commercially-sensitive information, but this cannot be allowed to obstruct scrutiny where there is an effective monopoly or where one player is dominant as, for example, BT is in telecommunications.

It is essential that the public has a high level of confidence in regulators whose decisions have large and direct consequences for household budgets, not to mention industrial competitiveness. Greater transparency will help in this process, but will not in itself do the job. Another improvement would be to require regulators to report annually to parliamentary select committees, which would then also hold public examinations of their reports. Regulators' appointments - which should be for fixed and non-renewable terms as another bulwark against cost-cutting - might be subject to confirmation by the same committees.

Finally, fundamental scrutiny of each regulated utility should occur once a decade or so. The Monopolies and Mergers Commission is the body best qualified to carry out such an exercise. The aim would be to suggest changes in company and market structure that would permit less - or more effective - regulation, by imposing more competition.

Nato's role in Europe

WITH THE ending of the Cold War, it was clear that Nato, an organisation created essentially to defend the west against military attack by the Soviet Union, would have to change. Last week's summit of Nato leaders in Rome was intended to consecrate the transformation of the Alliance into more of a political organisation, devoted to healing the breach with its former adversaries and to common security problems.

In spite of the self-congratulatory statements, the leaders only partly succeeded in laying the foundations of such a transformation. The Co-operation Council, an institution set up to build a new relationship with the Soviet Union and eastern Europe is certainly a desirable move. But it is unlikely to satisfy for long the new eastern European democracies, such as Hungary, Czechoslovakia and Poland, which aspire to full membership of Nato, as well as to the European Community.

Moreover, the attempt to forge closer ties with Russia and east within the Nato framework duplicates the role of the 35-nation Conference on Security and Co-operation in Europe, proclaimed in the Charter of Paris barely a year ago.

France insisted that the final declaration in Rome include a substantial section on the need to strengthen the CSCE as an essential element of the new European security "architecture". But despite their best efforts, the drafters of the document cannot hide the fact that Nato and the CSCE have increasingly overlapping political functions.

Nato, is much the more dynamic of the two organisations at present. Sooner or later, this duplication will have to be sorted out.

Current watchword

Duplication was also the watchword when the question of greater co-operation in European defence was discussed last week. George Bush and John Major were adamant in stressing that it was as much Nato's own identity as it was Europe's new defence role that was at stake. Again, the final documents go through some remarkable contortions in an

attempt to reconcile the commitment both to Nato's responsibilities for Europe's defence and to the leaders' strong support for a developing European defence role.

Predictably, the communiqué was all things to all men. But behind the language of consensus lurked an acute sense of the threat to the transatlantic partnership unless the development of European defence co-operation was not handled deftly.

Future relationship

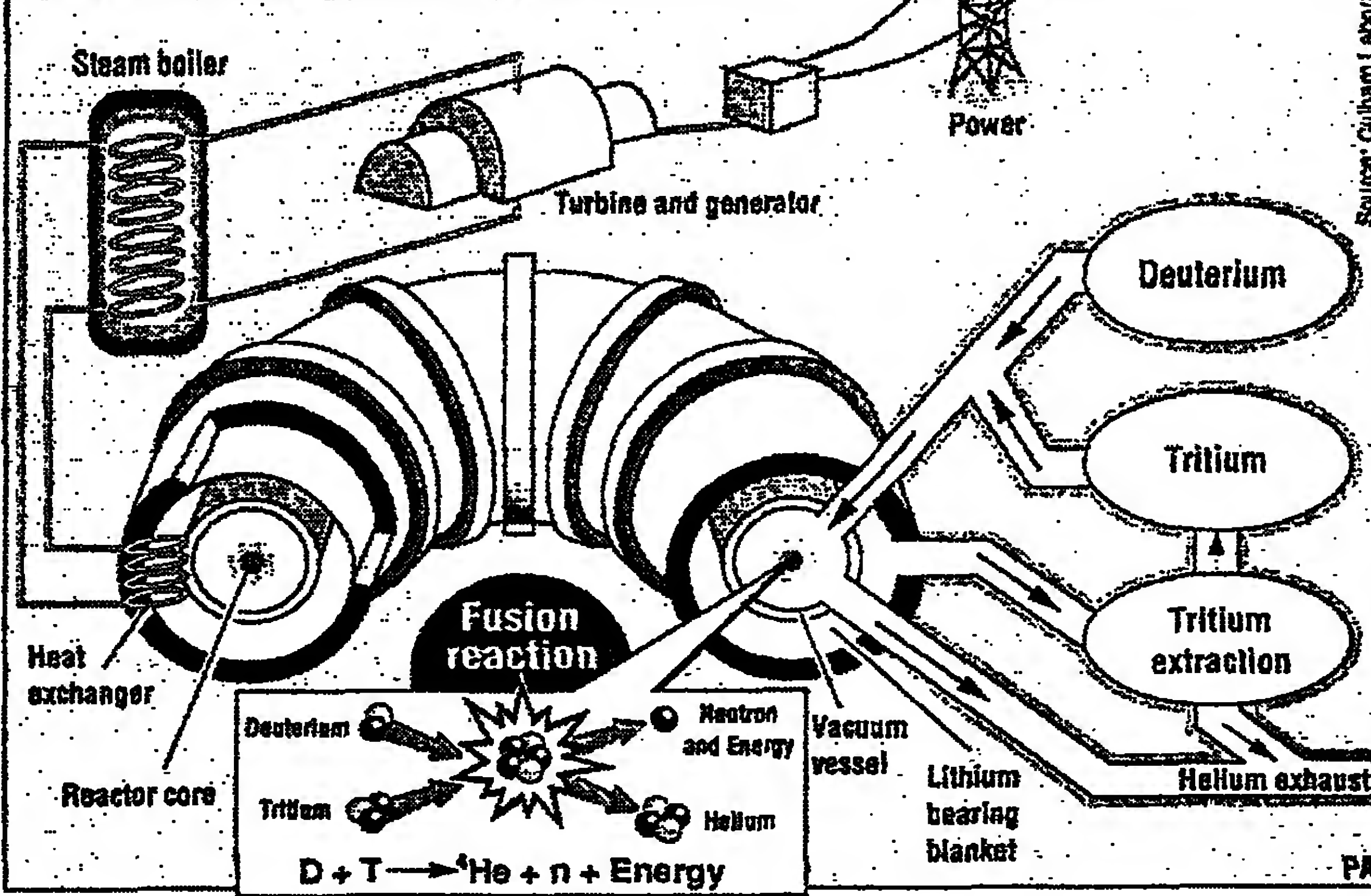
The summit did not solve the problem of the future relationship between Nato and the new European defence identity. That decision will have to wait until the 12 EC members have defined more precisely what form that should take - preferably before or at their next summit in December next month. But the Rome meeting was nevertheless useful in laying down the parameters within which it is feasible for the Europeans to work out their own defence co-operation.

Mr Bush's warning to his European partners that they must clarify their attitude to Nato is a timely reminder that there are limits beyond which they cannot go without provoking a US disengagement from Europe. That is certainly not the US Administration's present intention, as Mr Bush made clear. But Congressional and public pressure to leave Europe to its own devices would certainly grow if the Twelve adopt too independent a stance.

Mr Bush's admonition should therefore have strengthened the hands of those who, like Britain and Italy, want the new European defence identity to retain strong ties with Nato, and who do not want it to be "subordinated" to the EC's institutions.

Quite what links should be established between the EC and nine-nation Western European Union, the embodiment of the new European defence identity with Nato, will be the subject of tough negotiations in the weeks to come. But a compromise in Maastricht has at least been facilitated by the re-statement of the principles which have governed western defence and US involvement in Europe over the past 42 years.

JET fusion reactor at Culham



Clive Cookson on the importance of a successful fusion experiment

The Promethean quest

This weekend in Oxfordshire a doughnut-shaped ring of superheated gas reached a temperature of 200m deg C - 10 times higher than the sun's centre - and briefly produced 2MW of energy.

Saturday evening's experiment at the Joint European Torus (JET) in Culham was the first large-scale demonstration on Earth of nuclear fusion, the reaction that powers the sun and is held out by scientists as the brightest prospect for giving mankind a clean and limitless source of energy in the 21st century.

There have been several highly publicised "breakthroughs" in fusion research over the past 35 years, the most recent the 1989 claim of Professor Martin Fleischmann and Stanley Pons to have carried out "cold fusion" in a test tube at the University of Utah caused a scientific furore which has only just died down. The Fleischmann-Pons work has been largely discredited, though a small band of scientists still believes in it.

Aware that the Fleischmann-Pons saga is still alive in many people's minds, Mr John Hogg, JET spokesman, said yesterday: "This is not a cold fusion story, this is real fusion. There is no doubt whatsoever that it is genuine. We have about 40 different diagnostic systems and cross-checks."

In contrast to the small benchtop apparatus of cold fusion, hot fusion is science on a grand scale. JET is a "torus" - an enclosed chamber as high as three double-decker buses and weighing 3,500 tonnes. Two hundred scientists were there on Saturday evening to witness the historic experiment from two horse-shoe-shaped control rooms and

then celebrate its success with champagne. The project has cost 14 European nations about £1bn to build and run over the last decade. Its budget of £75m a year is under pressure, though this weekend's triumphant announcement may persuade the EC, the project's main funding agency, to relax the financial constraints.

Nuclear fusion powers not only the sun but also, as a runaway explosion, the hydrogen bomb. The process forces atomic nuclei together, releasing energy in the form of heat and radiation. Fusion is the opposite of fission, the basis of nuclear power today, which releases energy by splitting heavy atoms.

The theoretical advantages of controlled fusion are that its raw materials are available in virtually inexhaustible amounts; it produces far less radioactive waste than fission; and it is inherently safe because, unlike fission, the reaction stops as soon as anything goes wrong with the reactor.

Unfortunately, formidable technical obstacles must be overcome before the dream of fusion power can be brought to commercial reality. The reaction cannot start until the fuel is superheated to become an electrically-charged gas, or plasma. The reaction stops as soon as the plasma touches the sides of the reactor vessel, because it then becomes too cool to sustain fusion.

The reaction is contained inside a "magnetic bottle". Powerful electromagnets, looping around the torus, keep the superheated gas away from the sides for as long as possible. Until the weekend JET had used deuterium as fuel. Deuterium, a non-radioactive isotope

of hydrogen, was relatively easy for JET technicians to handle as they juggled with the reactor and its magnets.

But deuterium is not the ideal fusion fuel. On Saturday the JET team replaced 14 per cent of the deuterium with tritium, a radioactive isotope of hydrogen which will be used in commercial fusion reactors. This changed the energy balance radically. Deuterium and tritium fused together, forming helium and throwing off neutrons with large amounts of energy. Although the experiment used only 0.2 grammes of tritium, it released the energy equivalent of 2,000 electric heaters over about a second. Calculations show that a commercial fusion reactor could provide enough electricity to meet a lifetime's needs for the average inhabitant of an industrialised country, from just 10 grammes of deuterium and 15 grammes of tritium.

But that prospect still lies far in the future. Even JET operators concede that commercial fusion power is unlikely before 2040. A more immediate concern of Dr Paul-Henri Rebut, JET director, is to secure enough EC funds to complete his scheduled experiments. The plan is to add more tritium so that the reactor runs on full power with a 50:50 mixture of deuterium and tritium by 1996.

At the same time fusion physicists worldwide are planning an ambitious international project to follow JET and the US Japanese and Soviet equivalents. The International Thermonuclear Experimental Reactor (ITER) would cost several billion dollars. If the partners can agree on the technical aims and the financial and industrial terms,

design work could start next year, with construction from 1997-98 and operation from 2004-05.

If ITER goes ahead, there will be intense competition to host the project - even more intense than the Euro-squabble in the 1970s over the siting of JET, which the UK eventually won. JET is the UK's only significant international laboratory, and British scientists will be arguing that its successor should also be built at Culham.

Whatever happens next, Dr Rebut says the latest JET experiment shows that Europe leads the world in fusion research. "This demonstration fully confirms that, with the additional information from the planned JET programme up to 1996, we will be able to design the experimental fusion reactor capable of generating more than 1,000MW of power."

A commercial fusion reactor will have a blanket of lithium metal around the torus. This will slow down the neutrons thrown off by the reaction and convert their energy to heat. Steam can then be raised in a boiler and used to drive a conventional electrical generator.

Even if ITER operates successfully, at least one further stage - a commercial demonstration reactor - will be needed before utilities can contemplate constructing fusion power plants. By then more than \$100bn will have been spent developing fusion energy.

Not without reason, fusion has acquired the reputation of being an exceedingly expensive mirage which is always receding as scientists try to approach it. This weekend's news from JET is a small step on a very long road toward reality.

Solace for the swan

■ The right name for her is clearly Sarah. Observer refers of course to the widowed swan of Lyme Regis who, after five years of lonely paddling and pecking around the little Dorset harbour, has suddenly taken up with a Canada goose.

The birdness of the unlikely pair is already a legend locally where, after her mate died in power cables, she was likened to John Fowles's *The French Lieutenant's Woman* waiting for her lover to return from sea.

Fowles agrees the swan should be called after his heroine, Sarah Woodruff. "I meant her to be swan-like and beautiful in the book." But he can't think of a name for the goose. So with the permission of Lyme's mayor Owen Lovell, Observer invites suggestions.

As to how the romance will end, no clue is given by Fowles's novel which offered a choice of endings: happy or sad. But nearby Abbotsbury Swannery suspects it knows. "It's perfectly OK for her to pal up with a goose," said a spokesman. "She belongs to the Queen and, as a royal bird, can do what she wants."

There's unlikely to be offspring, though. We had a pink flamingo here that went with a female swan, and nothing came of that. "Nor are the other long-term omens good either, it appears. For eight years the flamingo stayed at Abbotsbury all year round, then in 1989 took to flying away in the spring and returning for winter. This year, alas, it has not come back."

Downcast

■ High places, and friends therein, are evidently not all they're cracked up to be - as witness the European Bank for Reconstruction and Development's decision to set up its headquarters in the

OBSERVER

City of London's Broadgate. The choice was a particular blow for Toronto's Reichmann brothers. Their Olympia & York company, developer of Canary Wharf in the London Docklands, had been canvassing the top of its 800ft tower there as the right home for Jacques Attali's bank.

But it seems that not even lobbying by Canada's prime minister Brian Mulroney, who put in a telephone call to his UK counterpart John Major, could get B&Y to take root in the spectacular but isolated tower. "We were promoting it quite vigorously," says a Canadian diplomat. "But not being too naked about it."

Olympia & York's disappointment will be all the sharper for the fact that it lost out to the Rosehaugh and Stanhope companies, which jointly own of the bank's Broadgate choice.

Not only are the two fierce rivals for tenants, but they have lost O&Y a fortune. It bought 8 per cent of Rosehaugh and Stanhope at a total cost of £160m before the property market crashed. Its investment in the pair is now worth a princely £22m.

Cannot can

■ Still greater penetration is achieved by Castrol GTX motor oil today when Burmah Castrol officials inaugurate its production in Volgograd. Burmah Castrol has provided consulting services for the central plant for Russia, where the product will be marketed under the Castrol name.

The trouble is that it can't be canned. Although the producers would like to sell it in sleek tins with eye-catching logos, there is no local source of supply. So the plant has opted for 2½-litre bottles made of reinforced plastic, normally used for packaging tomato

COMMUNICATIONS

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know that we are trading profitably and have no connection with Turfiff Corporation," says Charles's son Simon Turfiff, who runs BHE as managing director with occasional advice from his dad.

"When he resigned," the chip off the old block adds, "Turfiff had £2m cash in the bank. Now, four years later, it has over £14m of debts."

Rustic retreat

■ Jaded fans of P G Wodehouse at last have a chance to emulate the Master's rustic peer Lord Emsworth and retreat from the world's troubles into the pages of *Whiffle's The Care Of The Pig*.

The aptly named James Hogg, a TV journalist with newsroom claims to have found the Ninth Earl of Emsworth's personal copy of the 756-page original, and digested it down to a mere 128 for publication by Michael Joseph. The cover sports a picture of a noble Berkshire sow which could well be Emsworth's Empress of Blandings herself.

Handicap

■ "I can still hit the ball well," the wizened old man told the golf club pro after paying to play a round on his own. "But I'm short-sighted, so I'll need a caddy to spot where my long shots land. We can ride round in my buggy."

The pro pressed a bell, and out came a man even older than the player himself. "I know he's getting on a bit," the pro explained, "but he's the only caddy free, and his eyes are as keen as mustard." On the first tee, the player said "Tell me how this goes", and hit a cracking drive. "Wonderful!" came the reply, "over 200 yards and straight, until it faded into the rough." "Where did it land?" asked the player. "Sorry, I've forgotten," the caddy said.

PERSONAL VIEW

Time for a Euro-MMC

By Gordon Borrie



More than a year after it was introduced, the European Community's merger regulation was finally used for the first time last month to block a proposed bid on the grounds that it was "incompatible with the common market".

The bid in question was by Aerospaciale and Alenia, the French and Italian state-owned aircraft manufacturers, for de Havilland, the Canadian subsidiary of Boeing.

Given the force with which Sir Leon Brittan, the Competition Commissioner, has argued for an effective merger control policy in the run-up to the single internal market in 1993, it is surprising that the Commission had not prohibited any of the previous 50-odd mergers that the EC Mergers Task Force had examined.

One or two of those earlier cases did seem to raise more questions about competition than conceded by the Task Force. (Notable was the Varta/Bosch merger, where high market shares were created in the German and Spanish markets for replacement batteries.)

The Commission's decision on Aerospaciale-Alenia served as a reassurance that the regulation is indeed a credible instrument for preventing mergers which would greatly reduce competition within the EC. The acquisition of de Havilland would have given the merging companies 67 per cent of the EC market for the 20-70 seater commuter aircraft (and 50 per cent of the world market).

However, it was disturbing to learn that Sir Leon's decision had been opposed by several of his fellow Commissioners. Equally worrying were the French and Italian ministers' outbursts against the Commission's majority decision and the report that Mr Martin Bangemann, the industry Commissioner, would be seeking to limit Sir Leon's power to conduct merger investigations on behalf of the Commission up to the point of final decision.

A minority of Commissioners seems to have favoured the Aerospaciale-Alenia/de Havilland merger on the grounds that a "Euro-champion" was needed so as to compete effectively on the international market. But the clear wording of the EC regulation requires the Commission to prohibit anti-competitive mergers. It is therefore a matter of concern if even some commissioners are willing to jettison the provisions of the regulation in order to pursue other objectives.

The European Parliament acknowledged that Sir Leon's view was in accordance with the regulation. However, it has called for the regulation to be revised to take account of

industrial, social, regional and environmental policy interests.

The regulation was in gestation for 17 years and most drafts submitted by the Commission had some provisions for weighing the benefits of a merger against the anti-competitive effects. In the end, the member states decided unanimously that the sole test to be applied should be the effect of a merger on competition - a test which can be applied reasonably objectively. The member states also decided that the Commission should not be empowered to authorise an anti-competitive merger on the grounds that European companies should be bigger so as to compete successfully in world markets.

In the light of the arguments that have arisen from the Aerospaciale-Alenia/de Havilland case, it is difficult to imagine that member states will now be prepared to grant the Commission such powers.

At present the regulation gives exclusive jurisdiction to the Commission over only the largest transnational mergers. Certain thresholds are specified, in particular that the aggregate worldwide turnover of the merged companies should exceed Ecu 5bn (about \$3bn). The thresholds are to be reviewed before the end of 1993 and the Commission is already calling for a reduction.

The present level is the result of a compromise and until the Commission demonstrates that it can effectively and routinely apply the competition test, there will be doubts as to whether its jurisdiction should be enlarged.

The idea of an independent European competition authority has been floated in the past. Mr David Williamson, secretary-general of the European Commission, spoke recently about devolving the Commission's functions to agencies.

Perhaps now is the time to reconsider whether a "European Competition Agency" would be better able than the Commission itself to apply competition principles to mergers. Politicians should be excluded from sitting on such an agency. Instead, membership of the agency could be similar mix to that of the UK Monopolies and Mergers Commission - administrators, businessmen, lawyers, economists and so on.

The example of the German *Bundeskartellamt* (Federal Cartel Office) could be followed. The *Bundeskartellamt* makes its decisions purely on competition grounds. These can be overruled by a minister on the grounds of public interest. In practice this is seldom done, and if it is, it has to be publicly explained. The EC Council of Ministers could usefully consider such a role for itself.

The author is director-general of the UK Office of Fair Trading

COMMUNICATIONS

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BUSINESS DEVELOPMENT TEAM

Time for a Euro-MMC

By Gordon Borrie

Two years ago this month, a remarkable revolution swept through eastern Europe: the communist regimes were toppled from power. The dark era of compromise, collaboration and fear appeared to have come to an end.

But has it? Over the past few months, the climate of suspicion is resurfacing in the region. In several east European countries, people are now being asked by the post-communist authorities: "What did you do when the communists were in power?" And some of these governments are introducing laws which may lead to action against thousands of alleged collaborators with the former socialist regimes.

In Czechoslovakia, the parliament is seeking to bring former communist officials and alleged collaborators to book and to purge them from the civil service. In Hungary, there are plans to put on trial those who were actively involved in crushing the 1956 anti-communist uprising. In what used to be East Germany, thousands of former communist officials have been sacked in part out of retribution for the state repression of the past. Even in those countries which have not taken any action against former communist officials — Poland, Bulgaria, and Romania — there is mounting public pressure for revenge.

In part this is understandable: for 40 years lived in the shadow of the secret police. But the quest for retribution is being exacerbated by economic and social problems. Many communist enterprise managers, particularly in Czechoslovakia, Romania and Bulgaria, are preventing economic reforms from taking place.

There are political considerations as well. "Governments may use the desire for retribution in order to discredit the left-wing forces who are taking advantage of the economic crisis facing all these countries," a Polish diplomat says.

The process is furthest advanced in Czechoslovakia. Last week the federal parliament in Prague passed legislation which will allow files held by the once-feared secret police to be opened. The law, called "Justice from the Past," is a sacrificial purification, aimed at purging the entire public sector of all former collaborators and senior officials of the old communist party.

Under this legislation, heads of state organs, federal ministers, managers of state-owned companies, former local communist party secretaries, and high-ranking military officials, must within 30 days request certificates from the

Haunted by the ghosts of the past

Action against former communist collaborators in eastern Europe is gathering pace, say Judy Dempsey, Nicholas Denton and Ariane Genillard



interior ministry showing whether they or their employees were ever on secret police files as collaborators or potential collaborators. If so, they will have 15 days to leave their posts and will be prevented from holding public office for a period of five years. They do have the right of appeal to a government commission.

Supporters of the law include right-wing deputies grouped around Mr Vaclav Klaus, the federal finance minister. They say a strong democracy cannot be built until state organisations are purged of those who participated in four decades of repression. "We cannot afford to have these people influence public opinion," says Mr Pavel Zahradka, a federal MP, and one of the architects of the law. He reckons that some 140,000 people are listed in the files of the former secret police, of which about 30 per cent were active collaborators.

"This law will allow us to remove people who block the reforms at all levels of the administration," explained Mr Jan Lange, the federal interior minister, and a former dissident. It may also aggravate tensions between the Czech and Slovak republics, since many Slovak politicians would be affected by the law.

The law's opponents are loosely grouped around President Vaclav Havel. They include many former dissidents who belong to the left of centre Civic Democratic Movement, and others who belong to the liberal Civic Democratic Alliance. They say that the proposed screening process is unreliable, because the files were compiled by agents of the secret police, and that the law does not contain safeguards against false accusations.

"The law assumes guilt before innocence is proved," says a Czech journalist. Where Czechoslovakia is leading Hungary is not far behind. In Budapest, parliament last week adopted a law against former communists. This will allow prosecution for hitherto unpunished crimes such as murder, grievous bodily harm, and sexual offences committed in the name of communism. The statute of limitations which forbids prosecutions long after the event has been revoked. Parliament has also passed an amendment to the criminal law allowing communist officials to be treated as war criminals. The legislation is targeted particularly at those who were involved in suppressing Hungary's 1956 uprising.

"There are certain crimes that cannot expire," says Mr Jozsef Antall, the prime minister and head of the ruling Hungarian Democratic Forum.

As in neighbouring Czechoslovakia, there are many opponents to the legislation, including Mr Arpad Gercs, the president, himself a former dissident. They have argued that the wrong people will be punished. "It will lead to confusion and it will not punish those who are really responsible: the highest echelons," says Mr Miklos Vasarhelyi, a member of the opposition Free Democrats, and the press secretary for the revolutionary government during the 1956 uprising.

However, the right wing's demands for retribution go further: some MPs want a purge, not only of secret agents, but also of communist and liberal sympathisers at all levels in the media. In an internal memo to a Forum meeting last September, Mr Imre Konyai, the party's parliamentary leader, called for "decisive action" against the media, which he regarded as working against the governing party. He said that the government had convinced the world that it was tolerant and could now afford to combat the domination of the media by its opponents.

The government is also under pressure from right wing Forum deputies to introduce a bill aimed at purging former agents of the internal security department of the secret police. Senior officials in the judiciary and the media would be vetted; those with links to the secret police would be exposed if they did not resign.

Other east European countries have so far been spared any legislative witch hunts, but pressure may grow.

● The Polish authorities have turned a blind eye to the activities of former communists, many of whom have now exchanged the red communist card for the capitalist cheque book. "We cannot purge the entire bureaucracy or enterprises. The economic reforms will dismantle this entire communist apparatus once and for all," a Polish journalist says. ● In Bulgaria, the quest for retributive justice has been rather muted. Thousands of former secret police were dismissed last year and the authorities have placed Mr Todor Zhivkov, the former party leader and president, on trial. But so far, no attempts have been made to broaden the trials to include former prominent communist party members. "We do not want a witch hunt. We do not want to deepen the wounds in our society," says Mr Dimitar Popov, the former, and politically independent prime minister.

● In Romania, which suffered under what was probably the most corrupt and repressive communist regime in eastern Europe, the authorities have resisted opposition pressure to purge enterprises, the bureaucracy, and even the media of former prominent party officials and Securitate (secret police) agents. The irony, some would argue, is that it is here that action against the old guard is actually needed.

A report issued last week by the Jubilee Campaign, the British parliamentary human rights group, showed how those psychiatrists who imprisoned Romanian dissidents in psychiatric hospitals "still hold high positions in the medical institutions in Romania". It is too early to say if all the countries of eastern Europe will take a leaf from Czechoslovakia's book. The temptation in the Contingency Reserve is to say "The search for justice and the need to start from a clean sheet is understandable," says one Bulgarian diplomat. "I do not know what is the answer. Those who are now seeking revenge for the past are in danger of setting themselves up as moral ideologists. Yet those who are not prepared to address the past at all will make the road to democracy harder."

Samuel Brittan

Half a U-turn on fiscal policy



A former editor of the Financial Times had a habit of responding to any over-optimistic attempt to explain away economic events by saying: "Seasonally adjusted, the Great Lakes don't freeze."

Cyclically adjusted, public spending is not increasing as a proportion of gross domestic product, but in terms of actual numbers it is. Cyclically adjusted, the budget may be balanced, but the published numbers show rising deficits.

There is no point in being excessively fuddy-duddy. Budgets always do move into deficit in recession because tax revenues fall and social security expenditures are geared to unemployment levels. Nor is it difficult to explain why the deficit should be higher in 1992-93, when the Treasury expects a resumption of normal growth than in the current recession year. The budget balance reflects the economic cycle with a lag.

The more serious question is how to allow for the economic cycle. The danger is that an excessive budget deficit, originally due to recession, becomes built into the public finances. One difficulty about saying whether this has happened is that the Autumn Statement says little about revenue.

The little noticed feature is the addition made to public expenditure in later years. In the next financial year, the £11bn increase in programmes over those previously planned has been reduced to a £4bn increase in General Government Expenditure by a mixture of boosted privatisation estimates, legitimate drawing on the Contingency Reserve as the year in question approaches and other adjustments. But in 1993-94 and 1994-95, General Government Expenditure is to be boosted by £10.4bn and £12bn respectively. It is wrong to dismiss plans for distant years as pie in the sky. For they form the basis on which spending departments will submit bids for further increases as the year in question approaches.

Taking these future plans and Treasury projections for Nominal GDP (i.e., growth plus inflation) it is possible to make a rough estimate of the implications for the Public Sector Borrowing Requirement.

According to Goldman Sachs, this will rise from £10.1bn this year to £15bn in 1992-93, £19.4bn in 1993-94 and decline in 1994-95 only to £13.4bn. If we add back privatisation receipts and allow only a modest amount for a revenue shortfall, the 1992-93 total could approach £30bn or 4.1 per cent of GDP — well above the 3 per cent limit stipulated by the Draft Treaty on EMU. That Treaty does not exclude privatisation proceeds. But they will dry up under Labour and be over under the Tories.

The Treasury is staying silent on revenue and borrowing. But it has made an estimate of what would have happened to the ratio of public spending to GDP (excluding privatisation proceeds) if there had been normal economic

(taking 1990-91 as normal). This is quite a sharp contrast to the Thatcher-Howe-Lawson regime. Let us leave aside the famous or notorious 1981 budget, which in defiance of a protest letter from 364 economists, raised taxes in the aftermath of the recession. This could be justified as a once-and-for-all effort to reduce the PSBR, whose underlying level was too high (it reached 5.4 per cent of GDP in the recession year of 1980-81). Mrs Thatcher herself preferred repaying the national debt to incurring deficits. But leaving aside her personal whims, the rule of thumb under her government was to allow a shift into deficit during a recession and a shift into surplus in a boom, but then to move back fairly smartly towards balance in either case. A hypothetical deficit based on a hypothetical level of normal capacity operation was alien to its thinking.

Who is right? Great damage is done to the cause of balanced budgets by those who have made alarmist predictions about the consequences of, for instance, US budget deficits, when these consequences have failed to materialise. But there is no doubt that President Bush would have more room for manoeuvre in both domestic and international policy if he had started from a position of balance before the recent recession. And governments all over the world would be better placed to fight a real depression (and not just politically disappointing growth prospects) with fiscal policy if they did not have so much red ink in their budgets to start with.

The specific case of the UK there has also been a half U-turn in more widely understandable public spending terms. For even if one accepts unreservedly all the Treasury's corrections and adjustments, the picture is one of a nearly static public spending ratio as far ahead as it cares to project. The goal of a falling public spending ratio (and of a falling tax burden) has been put into cold storage. Labour could not go much further in adding to public spending plans without risking its hard-won reputation for greater financial responsibility than it used to enjoy.

President Bush could manoeuvre more easily had he started from balance before the recession

growth in the present fiscal year instead of the recession we have actually had. On that basis, a public spending ratio would have remained stable at around 40 to 40.5 per cent from 1990-91 to 1994-95.

The interesting aspect of this estimate is the radicalism of the business cycle correction. It starts from the reasonable assumption that some 4.4 to 5 percentage points have been lost from GDP this year because output has fallen instead of growing at its normal rate. The Treasury assumes that only a little of this shortfall would have been made up by 1994-95, as the economy will be growing at only slightly above trend rates in the intervening years. This is rather like the Peter Jay definition of a recession as any year which the economy is operating below its normal capacity rate

LETTERS

No lack of scrutiny of Commission proposals

From Lord Aldington.

Sir, On my way back from a conference of European Affairs Committees of the parliaments of the 12 member states, I read in Joe Rogaly's column, "A Tory vacuum," (November 5), the following, in relation to "big decisions taken by councils of ministers" of the community: "There is no genuine scrutiny at Westminster or anywhere else."

May I protest at this terminology inaccuracy which appeared to form a big part of the premise of his argument.

The House of Lords' European Communities Select Committee has issued a frightening number of reports in recent years: 29 last year and 17 this year so far, all on important enquiries by sub-committees of one of which I am chairman, with written and oral evidence, sometimes from ministers, sometimes from commissioners, and with expert advisers who help to focus the enquiry. In addition, there is a scrutiny process covering all proposals issued by the Commission and other institutions of the community. With each of these proposals the committee will also see a lucid explanatory memorandum signed by a UK minister. Debates follow. Government replies to the Lords' reports are given and made public, where there is no debate. Ministers do not normally

take decisions at the council until the scrutiny process has what is called "lified" the parliamentary process. The House of Commons has a different but effective procedure, recently reinforced by new committees of MPs.

These procedures go to the root of ministerial accountability for their decisions in the council, which may help to explain why there is a difference of response by governments and parliaments in the community to the proposal that the European parliament should have equal status with the council in legislation, a proposal which neither the British government nor the House of Lords thinks is right, although we are firm supporters of the increase in that parliament's powers in relation to the commission.

I am sad that you chose Guy Fawkes Day to misinform your readers about the role of our Houses of Parliament. I have often admired the support you have given to select committee reports on other occasions.

Aldington,
House of Lords,
Westminster,
London SW1A 0PW

Key still sought to make Common Agricultural Policy environmentally sensitive

From Ms Barbara S Young.

The Autumn Statement's provisions on agriculture provide some good news for nature conservation and some evidence that, domestically, the environmental responsibilities of farming are understood in Whitehall. But they must be seen within the wider context of Common Agricultural Policy reform.

The sustained commitment of Mr John Gummer, the agriculture minister, to developing and expanding the environmentally sensitive areas (ESAs) scheme is particularly pleasing, and means that more farmers will be encouraged to protect and manage wildlife. By increasing the budget for English ESAs to more than £50m by 1994-95, the Ministry of Agriculture has clearly indicated that it means business, and that the scheme has a long-term future, as does the commitment to encouraging farmers to plant trees on low land farm land.

A more cautious note is

needed on the increased funding for flood defence in Lincolnshire, which needs to be part of a strategic coastal plan for the area, with a full assessment of the environmental impacts of the opportunity for "controlled retreat" from existing defences to create new wet habitats.

Overall, the announcement represents a good example of the UK leading efforts to reform the CAP, but the money allocated to environment schemes has to be set against the continued spending on payments to farmers for farming. The statement optimistically predicts reductions in payments, but in all likelihood Mr MacSharry's proposals for CAP reform will actually cost more. The key is to find ways of making the future CAP environmentally sensitive.

Barbara S Young,
chief executive,
Royal Society for the Protection of Birds,
The Lodge,
Sandy, Beds SG19 2DL

EC intervention in collective bargaining should be limited

From Mr Zygmunt Tyszkiewicz.

Sir, In David Goodhart's story, "OH to back EC bargaining directives" (November 5), there are a number of misleading and damaging statements. The joint message from UNICE and ETUC to the inter-governmental conference is strictly limited in its scope. It recommends that the amended treaty should:

- require the Commission to consult the social partners before taking any initiatives in the social field;
- allow the social partners, if they desire, to deal with certain issues by agreement (as a substitute for legislation);
- permit any such agreements at the EC level to be realised either according to national law and practice or (only at the joint request of the signatories) by decision of the council, acting according to its normal voting procedures (mainly by unanimity, in the present treaty).

Contrary to the impression given by your story there is no support for a "side extension of collective bargaining over

social and employment directives". On the contrary, UNICE wants to put strict limits on the scope for EC-level intervention in this area, whether by law or by agreement.

Second, there is no question of the joint message supporting an extension of qualified majority voting in social matters. In fact, in the covering letter to Prime Minister Lubbers, the social partners point out that their discussions concerned only their role at the EC level, and did not cover any aspects of the treaty. It is important, in the highly-charged climate pre-Maastricht, that the agreement between the social partners should be correctly understood.

Zygmunt Tyszkiewicz,
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FINANCIAL TIMES

Monday November 11 1991

FERGUSON ENTERPRISES
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The name behind the name

Study shows workers' pay matches their output in continent's four largest economies European unit labour costs converge

By Edward Balls in London

GERMAN factory workers are paid no more than their British counterparts, when relative productivity is taken into account, according to a Financial Times study published today.

Unit wage costs in France and Italy are also almost the same. For every DM 1 of output in the four largest European economies in 1990, only 4 pence separated the highest and lowest cost producers, at current exchange rates. In

1985, the spread was 13 pence.

UK manufacturing is increasingly concentrated in low wage, low productivity activities. British unit labour costs are almost identical to those in Germany because British workers, paid on average 64 per cent of German counterparts, produce 65 per cent as much.

Italy had a higher unit labour cost in 1990 than the UK or Germany while France had

the lowest. But the variation was small compared to five years previously.

The convergence of unit labour costs in the four countries means there is no direct financial incentive to locate manufacturing either in low wage countries like Britain or in high productivity countries like Germany.

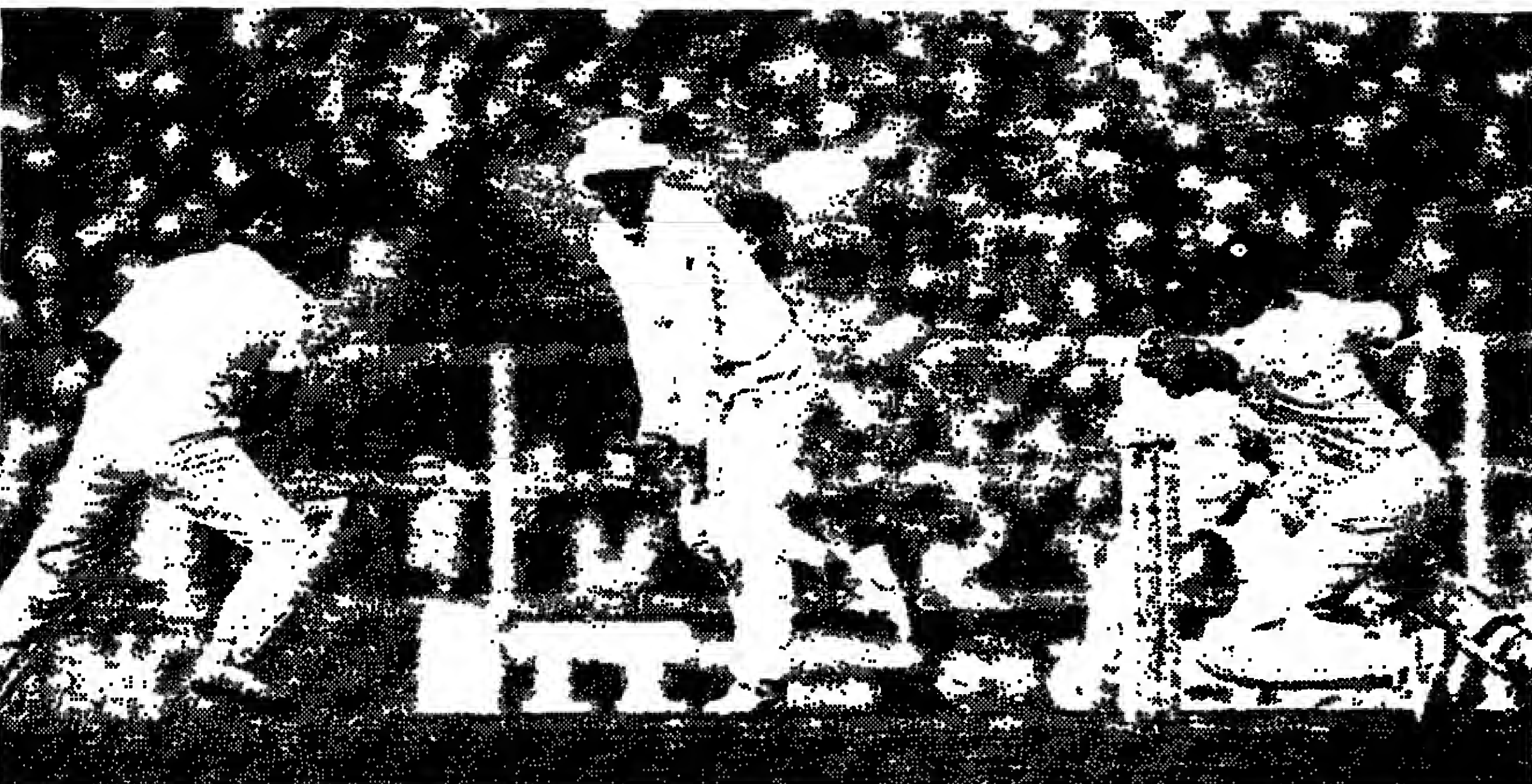
It also suggests that existing manufacturing exporters in both the UK and Italy are competitive at their current

exchange rates within the European exchange rate mechanism. Higher unit labour costs in manufacturing are one indication that a country's exchange rate is over-valued. Such measures of competitiveness are central to the debate about how the economies of ERM member countries must converge before signing up for the proposed European single currency.

Attention has focused on the high growth rate of unit labour

costs. In domestic currencies, in Italy and the UK in recent years. In fact, both countries improved their competitive position against Germany in 1985-1990 because of the appreciation of the DM. With ERM realignments apparently ruled out in the run-up to a single currency, however, higher relative growth of domestic unit labour costs will begin to hurt.

Level playing field, Page 6



Historic shot: South Africa returned to world cricket yesterday after being shunned over apartheid for 21 years. The tourists lost by three wickets to India in a one day limited overs game in Calcutta before a raucous crowd of 100,000. Captain Clive Rice watches wicket-keeper Dave Richardson miss a chance to stump India's Manoj Prabhakar

Army steps up assault on Croatia

By Laura Silber in Belgrade and Ronald van de Krol in The Hague

YUGOSLAVIA's federal army yesterday stepped up its air, sea and land assault on Croatia after the Serbian-controlled state presidency appealed to the United Nations to send peacekeeping troops.

In a letter sent to the United Nations Security Council, the rump presidency which consists of Serbia and its three allies, said: "The civil war in Croatia... threatens to spread to a wider area of Yugoslavia."

Earlier, President George Bush said the US would impose trade sanctions against Yugoslavia similar to those agreed by the European Community last week.

During a visit to the Netherlands at the weekend, Mr Bush also said the US would work

with the EC at the UN to seek an oil embargo against Yugoslavia.

In Yugoslavia, the state presidency, which is also the country's collective leadership, but which is no longer recognised by the EC after four of the six republics boycotted it, said: "UN peacekeeping forces would create a buffer zone and separate warring parties, until the Yugoslav crisis is resolved in a peaceful, just and legal manner and with UN engagement."

But leaders in the breakaway republic of Croatia yesterday denounced the state presidency's request to deploy UN peacekeeping troops around Serb-populated regions in Croatia.

They accused Serbia of call-

ing for peace-keeping troops to ensure the creation of a Greater Serbia. Croatia says peacekeeping forces should be deployed along the legal borders between republics and not on the current front lines.

The request by the presidency appeared to reflect fears among Serbia's ruling socialists and the army that a UN-imposed oil embargo could follow EC sanctions.

This would affect the ability by the federal army - already accused by Serb officials for waging a disastrous campaign - to fight on yet another front if violence erupts in the central republic of Bosnia-Herzegovina.

A referendum on whether to remain a part of Yugoslavia held at the weekend by Bos-

nia's Serbs, who make up about 31 per cent of the republic's population of 4.3m, is likely to exacerbate already heightened tensions among the mixed population of Slavic Muslims, Serbs and Croats.

The result of the referendum will be a resounding "yes" vote by the Serbs who have already proclaimed autonomous regions in Bosnia. After the elections, they are the second largest ethnic group.

Meanwhile in Croatia, Croatian radio said at least two people were killed and 20 wounded in the bombardment of Dubrovnik from naval gunboats which began yesterday at dawn. It said a British journalist and a member of the EC monitoring team were among the wounded.

Mitterrand seeks wide reforms to constitution

By William Dawkins in Paris

FRENCH president Mr François Mitterrand said last night that he is soon to propose wide-ranging constitutional reforms, in what will be seen as an attempt to improve the ruling Socialist party's sliding fortunes.

The proposals, which could take effect next year, will include shortening the seven-year presidential mandate - possibly to five years - giving more power to the parliament and introducing an element of proportional representation in time for the next parliamentary election in 1993.

Mr Mitterrand said a television interview that details would be placed before the French people in time for a parliamentary debate and public referendum some time after next March's regional elections and before the end of 1992.

He hinted that he might give up the presidency before his term expires in 1995, but said that "politically, morally, I am the sole judge of what I should do."

Mr Mitterrand, 75, who is near the middle of his second presidential term, due to end in 1995, admitted that 14 years was a long time.

He pointed out that he had voted against the current French constitution, in the fifth republic established under General de Gaulle in 1958, and had long wanted to reform its institutions. Parliament was being "suffocated" and should be given greater initiative, he said.

The minority government has had to make frequent use of a guillotine procedure, allowing it to force through legislation without a vote.

The announcement follows a growing debate on constitutional reform within the Socialist party, which has been seeking a way of restoring its popularity, damaged by stubbornly high unemployment and a wave of labour disputes.

Mr Pierre Mauroy, the Socialist party leader, has in particular been a strong proponent of an element of proportional representation.

One consequence of introducing some proportional representation to the constituency majority voting system used in French legislative elections would be to boost the parliamentary power of successful small parties such as the Greens and the far-right National Front.

A colossus at rest on Mount of Olives

By Hugh Carnegie in Jerusalem

ROBERT MAXWELL was buried at sunset yesterday in the dry, stony earth of Jerusalem's Mount of Olives, five days after his body was found in the waters of the Atlantic Ocean.

Reporters and cameramen, many from the tabloid newspapers he loved to own, threatened to upset the decorum of the occasion as they almost bounded the publisher to his grave. But in the end, the majestic setting overlooking the holy shrines of Jerusalem's Old City asserted an ancient dignity.

Five bearded rabbis carried Mr Maxwell's shrouded body on a litter and lowered it into the ground.

As Mrs Elisabeth Maxwell - a Christian - and her children listened to the final Jewish rites, the chants of muezzins calling Jerusalem's Moslem faithful to evening prayers drifted across the Kidron Valley.

It all seemed a very long way from the rumbustious life Mr Maxwell had led.

Israel's President Chaim Herzog, suggested as chairman in his eulogy at a convention cen-

tre where the funeral ceremonies began, when he called Mr Maxwell a "colossus".

Mr Herzog said: "He scaled the heights of human endeavour. Kings and princes waited on him. Many admired him. Many disliked him. But none was indifferent to him."

Mr Herzog praised the eager ears of British reporters when he referred to Mr Maxwell's "significant involvement" in aiding Israel's security and economy. It was the kind of remark Israeli leaders routinely make about diaspora Jews who help the country.

But perhaps the mention of security was significant given the recent allegations that Mr Maxwell was linked to Mossad, Israel's secret service.

Mr Yitzhak Shamir, the prime minister, led six cabinet ministers, including Mr Ariel Sharon, the housing minister with whom Mr Maxwell got on well. Among the mourners from Britain were Mr Gerald Kaufman, Labour's shadow foreign secretary, and Lord Coggan, the former Archbishop of Canterbury. Both wore a black Jewish kippa, or skullcap.

Troops in retreat from Chechen

Continued from Page 1

leave". In Moscow, the Russian parliament yesterday met to debate the state of emergency in the republic. In a heated debate, deputies said Mr Yel'sin's decision had been taken without wide consultation and would aggravate the situation.

Mr Victor Barannikov, the Soviet interior minister, addressing the emergency session, said that Mr Mikhail Gorbachev, the Soviet president, had called on the situation to be brought under control "by political methods only".

He said the interior ministry troops had been sent to Grozny "only so that the situation would not be allowed to



worsen further".

Mr Sergei Shakhrai, the state adviser to the Russian president, said that the decision to declare a state of emergency had been "well founded and juridically beyond reproach".

Meanwhile, an Aeroflot

Tupolev 154 airliner with 136 passengers hijacked from the southern Russian resort town of Mineralnye Vody by four Chechen activists and taken to Turkey was refuelled and returned to Grozny yesterday. The hijackers were arrested in Grozny.

US trade talks concession

Continued from Page 1

cent cut over five years or 35 per cent over six years were mentioned, either of which would probably be seriously considered by the EC.

Agreement on the size of the cuts depends on an understanding on the methods for implementing them. Mr Ray MacSharry, EC farm commissioner, said a "package" of measures still had to be put together.

EC and US farm negotiators will resume talks today in the hope of being able to report further progress when Mr MacSharry and Mr Edward Madigan, US agriculture secretary, meet at the conference of the Food and Agriculture Organisation in Rome tomorrow and on Wednesday.

The US joined the EC in stressing that it was vital to achieve a more effective and

binding system for resolving trade disputes in the General Agreement on Tariffs and Trade that would reduce the dangers of retaliatory trade action. This is a significant indication that Washington may be ready to meet the EC's demand that it drop unilateral punitive action against countries it accuses of unfair trading.

Washington and Brussels said they were ready to show flexibility to bring the round to a successful conclusion by the end of the year. But the deadline of November 30, set by Mr Arthur Dunkel, Gatt director-general, for draft texts of agreements needs to be met if more than 100 countries are to have the time to work out the details of tariff concessions, commitments to liberalise trade in services and other deals in the seven sectors under negotiation.

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WORLDWIDE WEATHER

Today: cloudy over the south with some spells of fairly heavy rain. In the evening there may be sleet or snow on high ground. Over Scotland and Northern Ireland there will be some showers, with most of them in northern and western areas. Outlook: cool and windy with rain spreading to most places from the north-west.

Area	Temp	Wind	Area	Temp	Wind	Area	Temp	Wind	Area	Temp	Wind
Amsterdam	8	SE	London	10	SE	Paris	12	SE	Madrid	15	SE
Antwerp	9	SE	Manchester	11	SE	Rome	14	SE	Moscow	18	SE
Birmingham	10	SE	Newcastle	12	SE	Stockholm	16	SE	Warsaw	19	SE
Bristol	11	SE	Nottingham	13	SE	Vienna	17	SE	Zurich	20	SE
Cardiff	12	SE	Sheffield	14	SE	Berlin	18	SE			
Edinburgh	13	SE	Sunderland	15	SE	Brussels	19	SE			
Glasgow	14	SE	Wolverhampton	16	SE	Frankfurt	21	SE			
Liverpool	15	SE	Wrexham	17	SE	Hamburg	22	SE			
Manchester	16	SE	Wigan	18	SE	Kiel	23	SE			
Newcastle	17	SE	Widnes	19	SE	Lubeck	24	SE			
Nottingham	18	SE	Widnes	20	SE	Munich	25	SE			
Sheffield	19	SE	Widnes	21	SE	Nuremberg	26	SE			
Sunderland	20	SE	Widnes	22	SE	Regensburg	27	SE			
Wolverhampton	21	SE	Widnes	23	SE	Salzburg	28	SE			
Wrexham	22	SE	Widnes	24	SE	Stuttgart	29	SE			
			Widnes	25	SE	Ulm	30	SE			
			Widnes	26	SE	Worms	31	SE			
			Widnes	27	SE	Zwickau	32	SE			
			Widnes	28	SE						
			Widnes	29	SE						
			Widnes	30	SE						
			Widnes	31	SE						
			Widnes	32	SE						

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INSIDE

European banks
buy FNFC loans

First National Finance Corporation, the loss-making UK consumer finance and commercial banking group, will announce today it has sold £150m of loans to two continental European banks and that a further £50m disposal is expected in a month. Page 18

DTB wins round in bund battle



Deutsche Terminbörse (DTB), the German futures exchange, last week wrested control of the German government bond (bund) futures market away from the London International Financial Futures Exchange (LIFFE), posting its market share from a quarter to half, but the aggressive tactics adopted by the DTB have raised complaints from some market participants. Page 18

Closed ranks over Maxwell debt

The sound of banks closing ranks was clearly audible at the end of last week as the death of publisher Mr Robert Maxwell raised concerns over the pyramid of debt he had piled up. Around 50 banks are owed £2.2bn by the two Maxwell public companies - Maxwell Communication Corporation and Mirror Group Newspapers - and a range of private businesses. Page 19

Norway seeks bank controls

Norway is seeking legal changes to force the write down of shares in troubled banks and to decide new share issues to ensure the banks' continued operation. If approved by parliament, the plan will move the banking sector a significant step closer to nationalisation and government administration. Karen Fosell reports. Page 18

GrandMet may sell dairy units

Grand Metropolitan, the UK food, drink and retailing group, is in the early stages of negotiating the sale of part of its Express Dairy subsidiary to Northern Foods, the food and dairy products group which supplies Marks & Spencer. Talk of the disposal has been going on for about a year following GrandMet's acquisition of Pillsbury, the US foods group, two years ago. Page 18

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MCC considers passing dividend

By Robert Peston in London

MAXWELL Communications Corporation, the main public company of the Maxwell family, is considering passing its interim dividend when it discloses half-year results at the end of this month.

The question of whether to pay a dividend is a key issue to be settled by Mr Kevin Maxwell, newly-appointed chairman of MCC, after his arrival back in the UK from the funeral of his father, Mr Robert Maxwell, yesterday in Israel.

MCC is considering not paying

a dividend in an attempt to reassure its bankers, owed an estimated £1.4bn (£25bn). However, an adviser to MCC said yesterday no final decision had been taken.

He added that if the dividend was passed, that would not mean the company did not intend paying a final dividend when the financial year was completed.

The banks which arranged MCC's main loan facility of £3bn were Crédit Lyonnais of France and Swiss Bank.

Bankers to the Maxwell family's private interests, who are

owed £800m, said they would be dismayed if there was no dividend payment, for two reasons: • MCC's share price might fall further, reducing the value of collateral pledged against loans to the private companies.

• The income of the Maxwell family, which owns a majority of MCC's shares, would be reduced, affecting the family's ability to service loans.

It also emerged over the weekend that Citicorp has taken control of 25m MCC shares. A Citicorp spokesman said the bank

"possessed 3.8 per cent of MCC and had acquired this holding before Mr Maxwell's death last Tuesday".

The shares had been pledged to Citicorp as collateral on a "banking deal" with the Maxwell family's private companies.

He declined to say whether the bank planned to sell these shares, but fears that Citicorp does not want to hold them over the long term may put MCC's share price under renewed pressure.

On the other hand, Goldman Sachs, the US investment bank

owed \$60m by the Maxwell family, said it had no immediate plans to sell MCC or Mirror Group Newspaper shares pledged to it as loan collateral.

On Friday, Mr Kevin Maxwell met his US bankers, including Goldman, in New York.

Mr Eugene Fife, a managing director of Goldman, said: "We want to give the family the opportunity to sort out its affairs. We won't take any knee-jerk action." He said the loan to the Maxwell family "fell due for repayment some time ago".

Sweden sets the stage for sell-offs

Robert Taylor looks at Stockholm's sweeping privatisation plans

SWEDEN'S industry minister, Mr Per Westerberg, will today formally announce sweeping plans to privatise state-owned industries and abolish the legal restrictions that hamper foreign investors from acquiring Swedish companies, shares and business property.

The two proposals are closely interlinked as the new centre-right coalition government seeks to open Sweden to international competition and make it more attractive to inward investors.

The new government may only have been in office since October 4, but the privatisation programme, which could raise up to SEK10bn (£1.8bn) a year, is one of the best prepared of its policies. Before he came to power, Mr Westerberg consulted up to 20 Swedish and foreign banks and brokers on the question and studied the privatisation programmes of other countries.

Mr Mark Stacopole, at Kleinwort Benson Securities, said: "Privatisation promises to be one of the only bright lights in what at present is a gloomy Nordic region." Foreign interest will grow after January 1 1992, when government permission will no longer be needed to acquire more than 40 per cent of the equity and 20 per cent of the voting rights in Swedish corporations.

Today's proposals will set out the framework and guidelines for the phased withdrawal of the Swedish state from its holdings in industry and services. The industry minister will be given full enabling powers so that the government can avoid defeat in parliament, where it lacks an overall majority.

The first legislative step will abolish by the end of the year Fortia, the Swedish state-holding company created less than 12 months ago to look after wholly or partially publicly-owned industrial enterprises.

These are the food/pharmaceutical group Procordia; SSAB steel company; the mining group LKAB; the pulp and paper company ASEA; and NCB, the telecommunications group.



Company	Sector	State control Equity	Voting	Assets SEK	Profit (loss) SEK
Procordia	Pharmaceuticals	100%	100%	33.1bn	3,000m
LKAB	Mining	100%	100%	3.6bn	350m
SSAB	Steel	48%	60%	8.5bn	100m
Celsint	Industrial/defence	100%	100%	7.5bn	200m
ASEA	Paper & board	75%	75%	8.0bn	100m
NCB	Forestry	21%	62%	3.0bn	100m
Nordbanken	Finance	100%	71%	411.0bn	100m



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inside the Celsius industrial group before they are ripe for the market. Loss-making Nordbanken seems unlikely to move wholly into the private sector until its troubles are over.

Sweden's monopoly public utilities are not an immediate priority for privatisation, even if they are being adapted to meet competitive conditions. Telverket, the telecommunications utility with SEK7.3bn worth of assets, wants to become a limited liability company, a status to be acquired in January by the national power board, Vattenfall, with SEK77.8bn of assets.

The post office and state railways are also marked down for the market, but probably not before the end of the century.

The sale of Sweden's diverse state industry sector seems unlikely to arouse much political controversy. During the 1980s, under the ruling Social Democrats, many state-owned companies were opened up to minority private ownership. A number were floated on the stock market during the late 1980s, including SSAB and NCB.

Future shareholders as a result need not fear the danger of any renationalisation with a change in the Swedish government's political complexion.

Along with this weekend's announcement of sizeable cuts in the level of taxation on capital and wealth and steps to increase the available risk capital for small companies, Mr Westerberg's moves on privatisation and foreign ownership should bring some cheer to the feeble stock market.

Sweden's macro-economic outlook until 1993 may be grim, but today's announcements will be an important signal to the outside world that the country is eager to embrace the risks and opportunities of a wholly private-owned industrial system.

Blue Arrow report may cut risk of challenging management

By Philip Coggan

THE UK Department of Trade and Industry report on the £25m (\$41.5m) Blue Arrow loan to property developer Mr Peter de Savary, expected to be published on Wednesday, is likely to recommend measures to strengthen the position of non-executive directors of public companies.

The report is understood to criticise Mr Tony Berry, former chairman and chief executive of the employment services group, who approved the loan to Mr de Savary as part of a property deal in Canvey Island. The loan was one reason why non-executive directors unseated Mr Berry.

The DTI inspectors, Miss Hilary Heilbron, QC, and Mr Michael Boothan of accountancy firm Grant Thornton, recommend that a mechanism be created to guarantee the reimbursement to non-executive directors of fees incurred in taking outside advice to challenge executives.

The inspectors say that non-executives who challenge their managements at present face enormous risks to their reputations and their wallets.

Publication of the report has been delayed while details of the inspectors' criticisms have been sent to the parties concerned. Some comments have been toned down as a result of this process, according to those who have seen the report.

This was the second DTI inquiry into Blue Arrow, following an earlier investigation into the £37m rights issue which the company used to buy Manpower; the matter is the subject of a court case.

It is understood that the report makes no criticism of Mr Mitchell Fromstein, the Manpower executive who replaced Mr Berry as head of Blue Arrow, or of Blue Arrow's non-executive directors, Mr Michael Davies, Mr Dennis Stevenson and former cabinet minister Mr Norman Tebbit. Mr Tebbit said yesterday he was not at liberty to discuss the report until it was published.

Mr de Savary, who has yet to repay the £25m loan, is also not criticised and is understood to be cleared of any impropriety in the deal. Mr Michael Heseltine, secretary of state for the environment, blocked the Canvey Island development plan earlier this year.

Mr Berry is executive chairman of Business Technology Group, an office equipment company, and is also chairman of Tottenham Hotspur Football Club, although not of the parent company. He was unavailable for comment yesterday.

WHAT in the world do economists worry about? A large part of the answer, to judge from the list of prize-winners of this year's Amex Bank Review Essay Competition, is the state of the world's trading system and the emergence of trading blocs.

Two of the top three prizes, which will be presented on Wednesday in London, are concerned with trading blocs. Prof Jeffrey Frankel of the University of California, Berkeley, will collect \$25,000 for concluding that any emergent yen bloc in eastern Asia will be more the result of US government pressure on Japan to internationalise its currency than any deliberate initiative by the Japanese government.

Of more general interest, given the suspense surrounding the Uruguay Round of multilateral trade liberalisation talks, is the second prize-winning essay, Prof Robert Lawrence of the John F. Kennedy School of Government at Harvard University, wins \$10,000 for a spirited and optimistic assessment of the current trend towards regional trading arrangements in the world.

In his view, arrangements such as the European single market and the North American Free Trade Agreement being negotiated between the US, Canada and Mexico, can be building blocks rather than stumbling blocks for the world economy.

Such an idea is especially heartening in view of the history of problems in negotiating the Uruguay Round which have given rise to doubts on the future of the multilateral trading system and its guardian, the General Agreement on Tariffs and Trade (GATT).

Although the mood on farm reform has improved this weekend and participants have pledged non-stop negotiations in Geneva so texts of agreements can be ready by the end of this month for political decisions, the shape of any final deal remains obscure. Trade experts are thus not ready to dismiss worries over the future of the trading system should the GATT talks fail. In that

The building blocs of world trade

event, the emerging regional arrangements would be thrust centre stage.

Which brings us back to Prof Lawrence. He bases his optimism on a belief that the forces initiating the regional blocs are the very opposite of protectionism and that conditions today in no way resemble the situation in the 1930s when the world economy was split into regional trading zones closed to outsiders.

Instead, he identifies several positive influences for the world economy from regional trading arrangements: • They boost growth. He maintains, for example, that

major players was associated with extensive participation in multilateral tariff cuts. The nations negotiating the North American FTA are similarly opening up to other countries. Mexico, for example, is negotiating another FTA with Venezuela and Chile, has signed agreements on free trade with several central American countries, and is seeking to join the Organisation for Economic Co-operation and Development (OECD), the 24-nation group of the world's most industrialised countries.

• They cannot prosper without trade outside their own regions. "While each of the

major players may benefit from regional arrangements, none can afford to ignore its extra-regional relations. The US, Europe and Japan are all global rather than regional traders," Prof Lawrence says.

Extra-regional trade accounts for around 11 per cent of North American gross domestic product, some 18 per cent of western European GDP and around 22 per cent of the GDP of Japan and south-east Asia. "The importance of extra-regional trade to nations all over the world means that no region is in a position to sever, or even significantly curtail, its trade ties with the rest of the world by forming closed blocs," Prof Lawrence says.

He is especially dismissive of fears that Japan might become the centre of a restrictive trad-

ing zone. "The Asian bloc allegedly emerging around Japan is the least likely to develop into a formal protectionist arrangement. This region is particularly dependent on extra-regional trade."

Prof Lawrence is also remarkably sanguine about the EC's single-market plans, given the high degree of concern expressed in the US during the 1980s that it could lead to a "fortress Europe".

He believes that deeper integration within Europe will facilitate trade with the rest of the world. "A common set of standards, for example, makes it easier for all who wish to sell in Europe not just insiders. A tough set of rules which inhibits governments from subsidising domestic firms aids all their competitors, not just those located in the European Community."

Moves to regional integration in Latin America hold out similar promise because governments there have adopted market-oriented policies with the aim of serving global markets.

Is it all too good to be true? Perhaps. Prof Lawrence claims that the new regional arrangements are unlikely to resort to "overt protectionist barriers". But he admits that each of them "might well resort to more subtle protectionist pressures".

These could include the well-tried expedients of voluntary restraint arrangements in the US, less-than-transparent anti-dumping rules in Europe and company-inspired "hidden barriers" to sales in Japan.

Regional trading blocs are no substitute for GATT after all. Indeed, if they are to help the world economy grow they will need to be backed by the heightened GATT discipline that is one of the objectives of the Uruguay Round.

Prof Lawrence's essay paints an attractive picture of what might be. But it does not absolve the embattled trade negotiators in Geneva from doing their utmost to bring the trade liberalisation talks to a successful conclusion by the end of this year.

GM warns of \$16bn charge on benefits

By Martin Dickson in New York

GENERAL MOTORS, the largest US motor group, estimates it will have to take a non-cash charge of \$16bn to \$18bn to comply with a new standard of accounting for non-pension retirement benefits to its employees, notably health-care.

The GM charge may be the largest faced by any US employer in complying with the Financial Accounting Standards Board's rule 106, which was adopted last December and comes into effect at the end of next year.

This requires employers to accrue the cost of non-pension retirement benefits over the working careers of their employees, rather than charge them against earnings in the period in which they occur. Benefits already promised to existing employees must be estimated and either written off in a single charge or amortised over 20 years.

GM said in a routine filing with the Securities and Exchange Commission that the incremental annual expense of complying with FASB 106, shown as a reduction from earnings, could range from \$400m to \$2.6bn. This would be unfavourable to net income but have no direct impact on cash flow.

GM has yet to decide whether to adopt a single charge or to amortise, but the former would hit its balance sheet, which has shareholders' equity of around \$89bn.

Other businesses, such as IBM, General Electric and Abbott Laboratories, have already taken one-time charges, but the sums were less than GM's.

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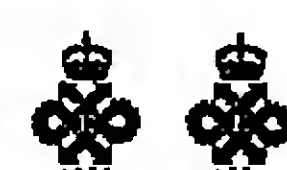
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COMPANIES AND FINANCE

European banks buy FNFC loans

By Robert Peston

FIRST National Finance Corporation, the loss-making UK consumer finance and commercial banking group, will announce today that it has sold £150m of loans to two continental banks and that a further £50m disposal is expected in a month.

The deals will increase the group's capital resources, helping to reassure investors. Shares in the company fell this year from a high of 213p to 38p on Friday night, because of concerns over the scale of its losses on loans to consumers and small businesses.

The loan sales are unusual, because they involve unsecured debt, rather than mortgages. Mr Tom Wrigley, FNFC's chief executive, said the Bank of England had indicated it would view the transactions as removing the loans from FNFC's balance sheet.

This will boost the risk capital ratio of FNFC's consumer finance subsidiary to almost 15 per cent, well above the 8 per cent minimum set by the Bank.

However, Mr Wrigley admitted that defaults on consumer and commercial loans



Tom Wrigley: removing loans from the balance sheet

remained high. City analysts believe that FNFC will announce provisions of around £100m to cover bad and doubtful debts when it discloses results for the year to October 31. That would give a provision rate of more than 6 per cent of

loans, three times greater than the clearing banks.

FNFC's big loan losses reflect the comparative risks of its lending, often top-up loans on houses. However, the interest rates are high.

Analysts believe that FNFC

made pre-tax profits before provisions of around £70m, but a loss after provisions of £25m-£30m. The company, a prominent casualty of the secondary banking crisis of 1974, is unlikely to pay a final dividend.

The average interest rate on the loan portfolio being sold is around 10 per cent over the London Interbank Offered Rate, the benchmark for loans between banks. However, Mr Wrigley said the banks buying the portfolio would not retain this full 10 per cent margin. Even though they are taking over the credit risk, they will pass most of the margin back to FNFC, which will continue to earn the bulk of the profits on the loans.

Mr Wrigley said the portfolio was a typical package of FNFC loans, rather than its best loans. The quality of its loans, however, is high. The £145m had not been impaired by the deal.

All its loans are matched by borrowings from banks of equivalent maturity - four years on average - minimising the risk of a run on its deposits.

Tyne Tees and Granada discuss deal to cut costs

By Raymond Snoddy

GRANADA TELEVISION has been in talks with Tyne Tees managers about the possibility of a cost-cutting deal on its franchise.

Individual managers from Tyne Tees, which has been in the company's successful £15m a year bid for its franchise, approached, it is believed, Granada which won back its franchise with a £2m bid.

Granada was a backer of the North East Television Consortium which bid against Tyne Tees in the competitive tenders for new franchises.

North East passed the initial quality threshold but its £2m bid was too small. It was only interested in a deal if Tyne Tees turns down its franchise offer and instead accepts a merger with North East and its £2m bid.

The situation at Tyne Tees is similar to that involving Yorkshire Television and White Rose, where there is a qualified under bidder and a large gap between the two bids. White Rose is trying to persuade Yorkshire's shareholders to turn down their £27.7m bid and instead accept a stake in White Rose which bid £20m a year less.

Yorkshire already holds a 20 per cent stake in Tyne Tees and is expected to take over its neighbour early next year.

Granada is only in a position to make a conditional offer to Tyne Tees.

The hope would be that if either Yorkshire or Tyne Tees turned down the offer of a franchise, the independent Television Commission would move automatically to the next qualified bidder - North East in the case of Tyne Tees and White Rose in the case of Yorkshire.

Legal opinion is divided on whether the ITV could instead decide to re-advertise its franchises. The final decision has to be taken by shareholders before the end of this month.

Norway seeks to extend banking sector controls

By Karen Fossli in Oslo

NORWAY is seeking legal changes to force the write-down of shares in troubled banks and to decide new share issues to ensure the banks' continued operation.

If approved by parliament, the plan will move the banking sector a significant step closer to nationalisation.

Details of a plan to recapitalise Christiania Bank, Norway's second biggest bank which was declared technically insolvent last month, have been postponed until parliament's backing is secured for an earlier Nkr11.5bn (\$1.78bn) bank sector rescue package.

"Authorities should have the ability to decide a write-down of the face value of shares in a company where 25 per cent or less of the share capital is estimated to remain," the Finance Ministry said.

Current law gives a meeting of bank shareholders the authority to formally decide if share values should be written down.

The new proposal is general and does not single out specific banks for treatment. It is aimed at ensuring "the quick and effective transfer of share capital from the government bank insurance fund to banks in crisis".

The state-operated bank insurance fund was established earlier this year with Nkr5bn of capital, but much of this has already been allocated. The government is awaiting parliamentary approval to expand the fund by Nkr5bn.

But the proposal also gives the government the power to "decide share issues to ensure the continued operation of a bank". Such issues are

expected in most cases to be directed at the government bank insurance fund.

A quick recapitalisation of Christiania will be carried out once parliament has dealt with the banking proposals," the Finance Ministry said.

Christiania is owned by the government bank insurance fund, and Mr Sigbjørn Johnsen, the finance minister, has said that the bank's shares should be written down to zero.

But Christiania believes that its 40m shares should retain a symbolic value to keep open the option for the bank to be reprivatised at some future date.

Under Norwegian law, shareholders are eligible for tax relief on value lost on share falls - but not if the shares are written down to zero.

DTB regains bund market lead

By Tracy Corrigan

DEUTSCHE Terminbörse (DTB), the German futures exchange, last week wrested control of the German bund futures market away from the London International Financial Futures Exchange (LIFFE), boosting its market share from a quarter to half. But the aggressive tactics adopted by the DTB have raised complaints from some market participants.

On November 1, a meeting of designated market-makers on the DTB contract discussed plans to commit themselves to trading a minimum daily volume of contracts. Four banks - Deutsche Bank, Dresdner Bank, Commerzbank and J.P. Morgan - agreed to make such a commitment.

The others are still discussing the issue; there is broad support for such a move, although its final form is not yet finalised. It was introduced at the beginning of December, said sources close to the discussions.

"There was a proposal from one bank [to institute such a system]," said Mr Harold Schlusman, head of trading at Deutsche Bank, who attended the meeting. He maintained that Deutsche, Dresdner, Commerzbank and J.P. Morgan agreed but there was no official commitment.

But some observers believe that the surge in volume last week can only be accounted for by a fundamental change in strategy by the market-makers, such as the imposition of daily targets.

Bund volume on the DTB jumped dramatically from 9,000 last Monday to 33,000 on Friday (with Friday's volume exactly matching that of LIFFE). Some market participants suggested that volume had been boosted by cross-trading, that is, the to-and-fro trading of contracts between market-makers to create volume artificially.

The DTB is adamant that a minimum volume has not yet been set. "There is a discussion about the quality of market-making, but the agreement has not started yet and that is not the reason for the surge in volume," said Mr Willy Brandt, a DTB official.

Such an approach is, in any case, rejected by LIFFE. "We have never, and would not, institute any sort of guaranteed activity and indeed would probably be precluded from doing so under the Financial Services Act," said Mr Michael Jenkins, chief executive of LIFFE.

The DTB, which had been trading bund futures for a year without gaining significant market share, had already taken steps to encourage more trading.

Earlier this year, the exchange set up its designated market-maker system in an effort to boost liquidity, and last month it introduced transaction fees on bund futures contract trading were removed.

Rosehaugh Stanhope Devs net assets fall

By Vanessa Houlder, Property Correspondent

ROSEHAUGH and Stanhope, the property companies that have been locked in merger talks for the last four months, have announced a 15 per cent decline in the net asset value of their jointly-owned company Rosehaugh Stanhope Developments.

RSD, which owns the Broadgate complex in the City and the Ludgate development under way near St Paul's, dropped in net asset value from £399.58m to £341.15m in the year to end-June 1991. It incurred a pre-tax loss of £60.4m, compared with £41.1m the year before.

Mr Nigel Wilson, director of Stanhope, said that Broadgate which had external borrowings of £1bn would be virtually self-financing in 1992, when its rental income would be £100m. He expected RSD as a whole to be self-financing by 1994.

City analysts have doubts about the letting prospects for the Ludgate develop-

ment and the effect this will have on the cash flow and value of RSD. The concerns were reflected in the share prices of Rosehaugh and Stanhope, which closed on Friday at 16p and 37p, respectively.

Analysts were also concerned about the high gearing of the merged company, which would have to bring the debts of RSD onto its balance sheet. However, the companies said that as long as there was adequate cash flow, an injection of fresh equity was not a pre-condition for the merger.

Mr Wilson said that merger talks were starting to make progress. "Ninety per cent of the barriers have disappeared," he claimed.

Negotiations have progressed slowly, partly because of a lengthy due diligence process on Rosehaugh and to the need to demonstrate the financial viability of various parts of the businesses. The high

level of Rosehaugh's debt hampered negotiations, although that had been eased by its recent £45m sale of its minority interest in Rosehaugh Greycoat Estate Holdings.

Rosehaugh was expected to publish its results last month but it was unclear whether it would be able to agree a merger by then. The companies and their 70 bankers still had to thrash out the financial structure and terms of the merger.

The purpose of merging the two companies is to bring about a genuine synergy. It seems likely that the companies would consider the ring-fencing of most of Rosehaugh's non-RSD assets, which would then be sold.

On Friday, RSD signed the largest City letting of this year, with the European Bank of Reconstruction and Development, which will move into the Broadgate complex in early 1993.

Ultramar attacks Lasmo financial performance

THE £1.15bn bid battle between oil groups Lasmo and Ultramar rumbled on over the weekend with an attack by the latter on the former's financial performance. In a circular to its shareholders, Ultramar claims that Lasmo's findings of costs of new reserves have risen substantially, that its production costs are "unusually high in comparison with other UK oil independents", and that its balance sheet is "deteriorating rapidly."

GrandMet in talks to sell part of Express Dairy

By William Cochrane

GRAND METROPOLITAN is in the early stages of negotiating the sale of part of its Express Dairy subsidiary to Northern Foods, the full-based food and dairy products group which supplies Marks & Spencer.

The talks involve two of four Express divisions, which cover liquid milk and the Eden Vale range of chilled fresh dairy products and are valued at between £300m and £350m.

GrandMet, which declined official comment yesterday, originally intended to find a buyer for the whole business; but Northern is said not to want the commodity cheese and butter division, and the Irish side of the business, and

these could be sold to other contenders.

Talk of the Express Dairy sale has been going on for about a year. Following GrandMet's \$5.8bn acquisition of Pillsbury, the US foods group, two years ago, group strategy has been to build up Pillsbury's international food brands as Express, with no international expansion, but which has not fitted into this plan.

At the time of GrandMet's half year results in May, trading profits of its North American businesses had increased by 27 per cent; group debt was unchanged at £2.9bn and gearing had increased from 84 to 89 per cent.

Whitbread Inv midway growth

NET asset value continues to grow at Whitbread Investment Trust. On September 30 it stood at 688.4p, against 654.26p six months' earlier and 568.1p at September 1990.

The directors said the UK brewing industry was going through an upheaval, but they

believed that most of the companies in which the trust had invested should continue to increase their dividends.

In the half year ended September 30 the trust lifted its earnings per share to 8.91p (8.35p). The interim dividend is raised to 4.2p (3.95p).

Weinstock says no bid planned for BAE

LORD Weinstock, managing director of GEC, the electronics group, yesterday confirmed that he did not plan to bid for the troubled British Aerospace.

In an interview with the BBC's Money Programme, Lord Weinstock said: "There's no particular hurry, but we would like those relationships to develop further. That is what our position is, but we do not have it in mind to bid for British Aerospace."

"The first circumstance is that they should need us. And that they should want us. I don't think that anything can be done in a constructive way, the sort that we would have in mind, without their willing co-operation. They would have to be eager to have us, to do whatever was required."

Pittencrief's hostile cash bid for Ambric

PITTENCRIEF, the rapidly-expanding Scottish oil production and communications group, is making a £4.5m cash bid for Ambric, an oil and gas exploration and production company, writes Michio Nakamoto.

But Ambric has responded by saying it "emphatically rejects" the offer. Mr Alan Riddett, the chairman, claimed: "This bid is opportunistic. It fails to recognise the significant restructuring that Ambric has undertaken."

Pittencrief has obtained 25.95 per cent of the Ambric equity and is seeking board support for the offer.

The assets of Pittencrief were primarily in the US while Ambric operated there and in the UK.

Japanese shipping lines record sharp declines

By Steven Butler in Tokyo

NIPPON Yusen and Mitsui O.S.K. Lines, the two biggest shipping companies, reported sharp declines in pre-tax profits in the six months to the end of June in spite of a modest increase in sales.

The companies were affected by the economic downturn, which has put a damper on international shipping, as well as the strength of the yen. Brisk growth in shipping between far eastern and European ports was balanced by sluggish shipping demand to North America and poor rates.

Nippon Yusen saw its profit before tax fall by 20 per cent to ¥8,600m (¥81m) from ¥10,800m a year earlier. Sales rose by 0.5 per cent to ¥275bn from ¥273.8bn. Net earnings dropped by 3 per cent to ¥4,120m.

At Mitsui, profits before tax fell to ¥4,300m (¥40m) from ¥5,050m during the half-year. After tax, however, profits rose to ¥2,640m from ¥2,070m due to net extraordinary gains of ¥475m, compared with net extraordinary losses of ¥3,780m in the comparable period.

Daihatsu tumbles 45%

By Emiko Terazono in Tokyo

DAIHATSU Motor, the Japanese motor group, reported a 45.9 per cent plunge in unconsolidated pre-tax profits to ¥3.6bn (¥27m) for the first half to September, due to the sluggish domestic minicar market.

Sales fell 1.7 per cent to ¥381.7bn, while after-tax profits declined 40.7 per cent to ¥22bn.

Daihatsu blamed the fall in sales, the first in 19 years, on weak domestic sales, which

account for 71 per cent of its overall sales. Sales of cars under 2 litres fell by 20 per cent, while minicar sales declined by 5 per cent.

For the full year, Daihatsu said continued sluggishness in minicar sales would mean an increase in support expenses for its car dealers.

For the year to March, Daihatsu revised its sales to a 0.2 per cent decline to ¥785bn and a 65.3 per cent fall in pre-tax profits to ¥4.5bn.

First Chicago names chief

By Barbara Durr in Chicago

FIRST Chicago's board of directors has chosen Mr Richard Thomas, president of the bank for 17 years, as chairman, succeeding Mr Barry Sullivan, who resigned last month.

The choice of a veteran insider was viewed as an effort to keep the bank on its current strategic track and avoid the upheaval that an outsider with a different vision of the bank might bring. Mr Thomas, aged 60, joined the bank in 1958 as a

trainee. He has been a director since 1973.

The bank has been aiming to expand its retail banking network through acquisitions and to consolidate its position as a "super-regional".

Mr Thomas is expected to continue plans to revive the bank through a restructuring of activities and aggressive portfolio management. The bank will have shed some 1,000 jobs by the end of this year.

TWA losses hit \$51m in quarter

By Nikki Tait in New York

TWA, the heavily-indebted airline controlled by Mr Carl Icahn, has suffered an after-tax loss of \$51.3m for the three months to end-September, despite a \$37.3m gain on asset sales. A year ago, it reported a net \$14.7m deficit.

At the operating level, TWA - an aggressive price-cutter in recent months - posted a \$80.3m loss, bringing the operating deficit for the first nine months to \$257.7m. In the third quarter of 1990, the carrier made a \$58.7m operating profit.

The results were on third-quarter operating revenues of just over \$1bn, compared with \$1.34bn a year earlier. The heaviest downturn in passenger loadings came on the international, rather than domestic, side.

TWA is currently in the final stages of negotiating a debt restructuring package with its creditors. In the third quarter, it incurred interest and other charges of \$78.6m.

Air Canada in the black in third period

AIR Canada returned to modest profits in the third quarter, shaking off some of the impact of global recession, but will still show a heavy loss for all 1991, writes Robert Gibbons in Montreal.

The airline, Canada's largest and privatised in 1989-90, had a third-quarter profit of C\$4m (US\$5.6m), or 6 cents a share, against a profit of C\$44m, or 60 cents a share, a year earlier. Revenues were down 14 per cent at C\$959m.

With the Gulf war and its aftermath, the nine months' loss was C\$126m, or C\$1.70 a share, against a profit of C\$50m, or 68 cents, on revenues of \$2,700m against C\$300m.

The third quarter is Air Canada's strongest, and analysts expect a loss of around C\$200m for the full year.

Mixed reaction to Jardine plan

By Angus Foster in Hong Kong

HONG KONG Stock Exchange's public consultation on Jardine Matheson's plan to move its main stock market listing to London closed on Friday with mixed reactions from Hong Kong's financial community.

A group of six merchant banks, including Baring and Standard Chartered Asia, is understood to have made a submission opposed in principle to Jardine's plan but hoping the company could be accommodated.

In outspoken opposition, the Hong Kong Society of Accountants described the proposals as "wholly inappropriate" and detrimental to the stock market's development.

The stock exchange will now assess the submissions before deciding whether to proceed with Jardine's proposals. If the exchange decides to go ahead, the Securities and Futures Commission will assess the implications of the plan under the takeover code.

Jardine wants to move its primary listing to London for regulatory purposes but retain a trading status in Hong Kong, where group companies account for about 10 per cent of stock market turnover.

Jardine has said it wants to make the move because it fears Chinese interference in Hong Kong after 1997. If Jardine's request for a special status is not met, the company has

threatened to delist from Hong Kong.

The company has been attacked by politicians and businessmen for seeking special favours and acting in a "high-handed" manner. Critics say bowing to Jardine's proposals would undermine the authority and credibility of Hong Kong's regulatory authorities and would also set a dangerous precedent.

China newspapers, Beijing's monthly press in Hong Kong, roundly oppose the plan. But Mr Greg Terry, legal adviser to Jardine, said the company had received several expressions of support in Hong Kong and relations with China's leaders were "excellent".

CROSS BORDER M&A DEALS				
BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Royal Packaging Industries (Holland)	4P Group (France/Germany)	Packaging	£268m	Unilever exits packaging
Fukutake Publishing (Japan)	Berlitz International (US)	Language teaching	£144m	Maxwell disposal
Jenbacher Transportsysteme	Telfos Holdings (UK)	Rolling stock	£35.8m	Offer for outstanding stake
Publicis (France)	Geers Grosse (UK)	Advertising	£5.3m	Pan-European partnership
Harrisons & Crosfield (UK)	Chemiewerk Greiz-Dolau (Germany)	Plastics	£3.8m	Buy from Treuhand
Sturge Holdings (UK)	British American Insurance Agency (Germany)	Insurance	£1m	German first for Lloyd's
Phillip Morris (US)	Egri Dohangyay (Hungary)	Cigarettes	n/a	Buyer targeting E Europe
Flat (Italy)/Hitachi (Japan)/Deere (US)	JV	Heavy equipment	n/a	Memo of understanding signed
BSN (France)	Amoy Industries International (Hong Kong)	Food	n/a	Brands range increased
Komatsu (Japan)	FAI (Italy)	Construction equipment	n/a	Tie-strengthening 10% stake

Source: FT Mergers & Acquisitions International

Disposals driven by strategy and debt were again a feature of last week's international mergers and acquisitions, writes Brian Bollen.

Anglo-Dutch group Unilever is exiting from packaging to concentrate on its core businesses, selling its France-German arm, 4P, to Holland's Royal Packaging Industries.

The sale of US-based language teaching subsidiary Berlitz, the first announced by Maxwell Communication Corporation after the death of chairman Robert Maxwell, continues a series of debt reduction disposals. The buyer, Fukutake of Japan, plans to establish an international education and publishing business.

Providing a reminder that there is a positive side too to focusing on core activities, US tobacco company Philip Morris launched a planned series of acquisitions in eastern Europe by acquiring Hungarian state-owned cigarette maker Egri Dohangyay.

There was further confirmation of the creeping globalisation of the recession-hit heavy construction equipment industry. While Italy's Fiat, Japan's Hitachi Construction Machinery and Deere of the US were signing a co-operation memorandum, Japan's Komatsu was acquiring a 10 per cent stake in FAI, Italy's second-largest maker of construction equipment.

The agreement of terms for the merger of London-based advertising agency Geers Grosse with marketing group Publicis continues the trend of French purchases in the industry. UK advertising industry, Blue Circle Industries of the UK continued its diversification and continental European expansion strategy with the cash purchase of Swedish radiator manufacturer Thermopanel.

INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Banks close ranks over Maxwell debt

THE sound of banks closing ranks was clearly audible at the end of last week as the death of publisher Mr Robert Maxwell raised concerns over the pyramid of debt he had piled up.

Around 50 banks are owed £2.2bn by the two Maxwell public companies - Maxwell Corporation (MCC) and Mirror Group Newspapers (MGN) - and a range of private businesses. With that much at stake, no one was going to risk bringing down the whole edifice.

At the forefront of the rank-closers were National Westminster, main banker to MCC, and Crédit Lyonnais, which together with Swiss Bank Corporation had organised MCC's syndicated loans. The two are thought to be among the biggest bank creditors of the Maxwell group of companies, so it was not surprising they were the most public in their support.

NatWest expressed strong confidence in Mr Kevin Maxwell, Mr Robert Maxwell's son, and chairman of MCC. Crédit Lyonnais claimed nothing had changed at MCC since its creator's death. Mr Maxwell senior had already taken a back seat, a debt reduction programme was under way and disposals would be unaffected, the French bank said.

Whether they are right will depend on a number of factors. First, can MCC meet its disposal targets to meet loan repayments when they fall due? Of the £2.01bn owed by MCC, \$750m falls due by next October, with the rest repayable by October 1994.

EUROMARKET TURNOVER (\$m)

Primary Market	Secondary Market	Other
US\$ 2,500.0	2,500.0	2,500.0
£ 1,000.0	1,000.0	1,000.0
DM 1,000.0	1,000.0	1,000.0
Yen 1,000.0	1,000.0	1,000.0

US\$	£	DM	Yen
2,500.0	1,000.0	1,000.0	1,000.0
2,500.0	1,000.0	1,000.0	1,000.0
2,500.0	1,000.0	1,000.0	1,000.0

Week to November 7 1991 Source: AIB

INTERNATIONAL BONDS

Limelight falls upon the UK's building societies

THE UK's traditionally cautious building societies were thrown into the limelight last week as the Town & Country, the 18th largest institution, was rescued by the Woolwich.

The incident focused attention on the credit quality of the UK's mutual financial institutions in the face of mounting losses on mortgage lending. The Woolwich immediately had its A-3 long-term credit rating put under review for possible downgrade by Moody's Investors Service, the US credit rating agency. This undermined the knock-on effect that problems at smaller institutions could cause for their larger rivals.

There is a body of opinion that the Building Societies Commission (BSC), the regulator under UK law, will not allow any society to fail. The stronger institutions will be

pressured into absorbing any building society which runs into trouble.

On this view, Halifax, the largest and most credit-worthy institution, is the ultimate guarantor of the sector. This does not mean all building societies should be unofficially assigned the same A-1/AA+ credit rating as Halifax, just one-notch below the coveted triple-A level. The Town & Country takeover illustrates that mergers could easily weaken the credit quality of the stronger societies.

The fresh focus on credit quality comes as building societies are diversifying their borrowing activities in the capital markets. For example, Nationwide Anglia last month made the first dollar-denominated floating-rate bond issue by a building society.

Moves to diversify sources of wholesale funding are

applauded by credit rating agencies. For example, the Cheltenham & Gloucester said last week it had set up a \$1.5bn medium-term note (MTN) programme, arranged by Merrill Lynch. This allows it to issue notes of between one month and 30 years maturity, in all leading currencies.

Bankers said that MTN programmes are part of a general move to lessen dependence on sterling floating-rate bonds, the established method for building societies to raise debt finance.

Nationwide Anglia and National & Provincial have similar programmes in place, allowing them to issue in currencies ranging from Finnish markka to US dollars. Nationwide Anglia said that it has \$300m equivalent outstanding on its MTN programme, denominated in lire, Irish punts, Canadian dollars, US

dollars, Swedish kronor and sterling.

This does not entail taking on currency risk because the BSC demands that all foreign currency borrowings are swapped back into sterling.

However, other forms of funding risk are of concern to credit rating analysts. In particular, the more a building society relies on "wholesale" funding from the capital markets, the greater the risk that it will not be able to refinance its borrowings when it runs into trouble - or will only be able to do so at punitive rates.

The BSC sets a 40 per cent limit on the amount of funding which societies can raise from the capital markets. Most operate at around 20 per cent, considered safe by rating agencies.

In addition, some sources of funding are more sensitive to changes in confidence than others. Commercial paper is

generally seen as the most confidence-sensitive source of funding because it is short-term.

Nationwide Anglia has both US and Euro-commercial paper programmes, totalling \$2bn, set up in 1990 and earlier this year. Around \$1.1bn of paper is currently outstanding, a fairly typical amount among larger building societies.

The one area in which the building societies have not needed the financial markets in the past is for raising capital. Unlike banks, building societies are not under pressure to maintain dividend payments. As a result, a higher proportion of earnings can be retained as capital. Moody's estimated that the larger building societies can under normal conditions expand their capital base by 20 per cent per year simply by retaining earnings.

However, since the summer,

building societies have been able to issue permanent interest-bearing shares (PIBs), which count as core capital under BSC regulations. Bristol & West, Leeds Permanent and Bradford & Bingley have already entered the market.

The societies argue that PIBs are attractive as a source of funding and that it is in their long-term interest to develop the market. They are not short of capital.

Halifax, Leeds Permanent and Bradford & Bingley each have a core capital ratio of 9 per cent of assets, against just over 5 per cent for National Westminster Bank.

Meanwhile, potential investors in PIBs, in particular, will be keeping an eye on the credit quality of issuers, as they rank even below retail depositors in the event of winding up.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Stahl Bank	200	1994	3	8	92.61	Nomura Secs.	8.132
EBI	300	2001	10	8	100.215	SEC	7.988
Toyota Credit Corp	250	1998	5	7 1/2	101.58	CSFB	6.886
Int'l Finance Corp	300	1998	5	7 1/2	99.85	Deutsche Bk Cap.Mkts.	7.210
Swissair Finance K'bank	200	1998	5	7 1/2	99.85	Deutsche Bk Cap.Mkts.	7.135
DRG Asia/Int'l	100	2001	10	(0)	101 1/4	Salomon Bros.	-
Petroleo Brasileiro	250	1992	1	10	99.80	CSFB	10.214
Scot's Gas & Alloys	75	1994	(0)	10	96.98	Chase Investment Bk	11.500
New Line Cinema Corp	30	2004	15	8 1/2	100	Courty Natwest Secs.	6.606
Genfinance Lux.(0) 1/2	100	(0)	(0)	(0)	100	Merrill Lynch	-
STERLING							
Auto Funding	220	1998	4 1/2	(0)	100	USS Phillips & Drew	-
EBI	200	1994	3	8	98.70	Wood Gundy	10.013
Redland Sterling Fdng	125	2001	10	10 1/2	101.20	SG Warburg Secs.	10.877
AUSTRALIAN DOLLARS							
State Bk of S.Aust.	150	1998	7	10	100.80	Hambros Bank	8.838
Deutsche Bk Aust.	100	1998	5	9 1/2	101.15	Deutsche Bk Cap.Mkts.	8.807
Bque.Nationale d'Paris	75	1998	5	9 1/2	101.85	Deutsche Bk Cap.Mkts.	-
CANADIAN DOLLARS							
La Caisse Cent.Desjardins	100	1998	5	8 1/2	100.825	Wood Gundy	8.519
City of Laval	100	2002	10	9 1/2	101.15	Wood Gundy	8.500
Prudential Funding Corp	150	1995	4	8 1/2	101.27	Wood Gundy	7.872
FRENCH FRANCES							
Carrefour	500	1995	4	zero	100	Societe Generale	-
Banque Paribas	1,200	1998	8	8 1/2	99.725	Capital Markets	9.220
Electricite de France	2bn	2002	11	zero	98.87	CCF	8.778
D-MARKS							
Chuo Woolen Mills	30	1995	4	5 1/2	100	Dresdner Bank	5.125
San. Portug. d'Invest.(m) 1/2	175	1998	4 1/2	(0)	100	Bayrische Vereinsbkt.	-
Council of Europe	90	2001	10	8 1/2	101 1/4	Bayerische Landesbkt.	8.084
SWISS FRANCES							
Alsuji Nylon Ind.(s) 1/2	250	1995	-	6	100	SBC	6.020
Tanzani Bank Corp	70	1995	-	4 1/2	100	Credit Suisse	4.500
Inter-American Dev't Bk	150	2001	-	7 1/2	100	SEC	7.250
Samm Steel Co.(s) 1/2	70	1995	-	4	100	Credit Suisse	4.000
Wiener Holding	50	2001	-	7 1/2	101	Wirtschafts & Privatbkt.	7.106
GEOT	125	1995	-	7 1/2	101 1/2	Credit Suisse	6.515

Notes: 1. Private placement. 2. Convertible. 3. MTN equity warrants. 4. Floating rate notes. 5. Variable rate notes. 6. Fixed term. 7. Conversion premium fixed at 20%. 8. Non-callable. 9. Callable premium fixed at 10%. 10. Callable premium fixed at 10%. 11. Callable premium fixed at 10%. 12. Callable premium fixed at 10%. 13. Callable premium fixed at 10%. 14. Callable premium fixed at 10%. 15. Callable premium fixed at 10%. 16. Callable premium fixed at 10%. 17. Callable premium fixed at 10%. 18. Callable premium fixed at 10%. 19. Callable premium fixed at 10%. 20. Callable premium fixed at 10%. 21. Callable premium fixed at 10%. 22. Callable premium fixed at 10%. 23. Callable premium fixed at 10%. 24. Callable premium fixed at 10%. 25. Callable premium fixed at 10%. 26. Callable premium fixed at 10%. 27. Callable premium fixed at 10%. 28. Callable premium fixed at 10%. 29. Callable premium fixed at 10%. 30. Callable premium fixed at 10%. 31. Callable premium fixed at 10%. 32. 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EUROPEAN FINANCE AND INVESTMENT

THE UK



Has the BCCI affair damaged the Bank of England's reputation? Have the banks reached their bad-debt peak? Can the smaller life companies hope for an independent future? And how big are the losses at Lloyd's? The months leading up to the general election will not be dull, predicts Robert Peston

The City strives to stay ahead of Europe

POLITICS HAVE dominated conversations in the City since the beginning of the summer.

Bankers, brokers and insurers are convinced that the timing and outcome of the UK general election, which must take place by July 17 next year, are vital to the performance of their businesses.

"The management of the economy is what concerns us more than anything else affecting our business," explained Sir Nicholas Goodison, chairman of the British Bankers Association, the UK-based bank trade association, and also chairman of TSB Group.

This obsessive election speculation is not a sign that the past year has been uneventful in other respects for financial service firms, nor that the coming months will be dull. Insurers, banks, fund managers and securities firms all need to respond to a raft of strategic issues.

A great concern of many financial institutions is whether the Bank of England's reputation is likely to be damaged by the results of the official inquiry headed by Lord Justice Bingham into the supervision of the Bank of Credit and Commerce International during the years before it collapsed. Although BCCI's demise was not the UK's, its most substantial operations were in the country.

The question is whether the Bank of England moved early enough to curtail BCCI's operations. "My guess is that the Bank of England did what it could, given the constraints," commented Sir Nicholas. "The Bank of England's supervisory system is very efficient."

The long-term political development of overwhelming importance to the City is the evolution of the European Community and its effect on financial business in the UK. The Department of Trade and Industry, egged on by City representatives, has been fighting battles all year in Brussels to modify drafts of assorted directives.

The following UK practices and firms appeared to be at risk on the basis of early drafts:

- The UK system of underwriting shares, which involves a primary underwriter taking a huge exposure to an issue for a short period;
- The UK self-regulatory system of policing takeover bids; and
- Small investment firms, unable to meet proposed new capital requirements.

However, the DTI has to date been successful in amending the relevant directives, or delaying their implementation, pending further negotiations.

The latest EC issue to cause concern is a proposal to link the bank payment systems of member countries. There is a risk, according to British banks, that the unification would increase the danger that the collapse of one bank could infect others.

City firms tend to be more in favour of European monetary union than politicians of either party. On the other hand, they are increasingly preoccupied by the question of whether a EuroFed, the mooted central bank for the European Community, should be sited in London or elsewhere. "Wall Street thrives, even though the Federal Reserve is located in Washington," commented Sir Nicholas.

Among more immediate issues, banks need to assure themselves about whether they can prevent bad debts from escalating to the extent that the losses severely erode their capital. In the first six months of 1990, the four big UK clearing banks made provisions of £2,000m in aggregate to cover the expected cost of domestic bad debts.

At the moment, the risk capital ratio of all big UK banks comfortably exceeds the 8 per cent international standard. Indeed, big UK banks appear strong compared with many of their US and Japanese rivals, which is allowing them to improve lending margins on loans to big companies.

The banks are all hopeful that bad debts will not escalate to the extent that this



A lofty view? London can no longer afford one as continental rivals increase capital ratios drops dangerously. However, Tom Frost, chief executive of National Westminster Bank, is in effect a spokesman for his peers when he says that he cannot be sure that the bad-debt peak was reached in the first half of the year - though analysts believe the peak for NatWest was May.

Mr Frost said that bad debts are continuing at a high level. He also pointed out that there tends to be an increase in corporate collapses when the economy revives after a recession. The reason is that an increase in demand for a business's product often leads to an increase in its working capital requirements. An overstretched business will not be able to finance this.

A longer-term issue for banks is how to improve their underlying profitability. One way is to prevent a recurrence of such severe bad debts. NatWest has been

among the first to rise to this challenge, by giving the brand new job of improving its credit controls to John Malbourne, a senior director.

But all the banks are doing their best to boost profits by cutting costs, normally through reducing staff and computerising administrative functions. They are also increasing the range of products they sell. To this end, Abbey National has just acquired Scottish Mutual, a life insurer, and NatWest has set up a joint venture with Clerical Medical, another insurer.

Indeed, the insurance industry is facing problems of similar magnitude to the banks. All the big banks and building societies either own or have exclusive marketing arrangements with particular life companies. Many life companies which are not linked to a bank or building society branch network in this way are therefore having to rethink their arrangements for selling insurance.

Analysts believe that smaller life companies, with low solvency ratios, are under such competitive pressure that they will be forced to sell themselves - either to bigger UK peers or to continental insurers.

French and German insurance firms tend to be far bigger than UK ones, and they are believed to be interested in expanding their presence in the UK. Earlier this autumn, Union des Assurances de Paris made a long-term commitment, in partnership with South Africa's Liberty Life, to back Sun Life. Liberty and UAP own 60 per cent of Sun Life between them.

Meanwhile, UK general insurers have suffered significant losses from a sharp rise in the incidence of claims. A handful of firms, led by Eagle Star and Royal Insurance, have made - or are expected to make - big provisions to cover the cost of claims on mortgage insurance policies, due to the long recession in the housing market.

But these debts pale into insignificance compared with the losses at Lloyd's of London for 1989 and 1990, which have been estimated though they will not be disclosed formally till 1992 and 1993.

Earlier this year, Lloyd's reported a £200m pre-tax loss for 1989, his first loss for more than 20 years. However, the market's exposure to catastrophes, notably Hurricane Hugo in September 1989 and the European storms of January 1990, mean that losses are expected to be far worse in 1990 and 1991 - more than £1bn before tax in 1990.

As a result of the losses, around 5,000 names - the wealthy individuals whose capital backs underwriting - are expected to leave the market this year. This reduction in underwriting capacity increases the threat from foreign competitors, such as the big German and Swiss reinsurers.

On the other hand, the international market share of the London equity market appears to be still rising. Just under two-thirds of the world's foreign share turnover is estimated to take place in London. The year's turnover in non-UK shares equalled that in UK stocks.

At the same time, the London stock exchange's reputation has been tarnished by the continuing delays in attempts to introduce an automated settlement system, Taurus, and simultaneously abolish the two-week account period in favour of a rolling three-day system. Paris's settlement system has for some time been more efficient.

However, the City has now recognised that all its sectors face a competitive threat from Frankfurt, Berlin and Paris as the single European market evolves. Indeed, the Corporation of London, the City's local authority, is funding the most ambitious research project ever undertaken, to assess the structure and costs of the City and make recommendations on how the City can be sustained.

The year's results are not due for three years. In the meantime, continental centres, with their relatively well capitalised banks and insurers, are unlikely to cease hostilities.



Yes, time is passing, and Europe is watching

The economy: Rachel Johnson looks beyond the green shoots to

The botany of recovery

AT LAST, it seems as if the government's green shoots of an economic spring have taken root in firmer ground.

Recent surveys from the Association of British Chambers of Commerce, the Institute of Directors and the Confederation of British Industry have discerned third-quarter movements in business confidence ranging from "marginal" rises (the CBI) to "leaps" (the ABC).

A forecast from the London Business School adds a scientific, statistical analysis to the survey's anecdotal headline conclusions, which are basically fashioned from company managers' ticked answers to format questionnaires.

The LBS suggests that the recession is finishing, output having fallen 3.7 per cent from its peak in the second quarter of 1990. In the third quarter of this year, output is to be lifted by the simple fact of higher oil production in the North Sea after years of low extraction levels. Current activity is distinguished from the last 12 months of deep recession by modest recoveries in output and demand.

Retail sales are gently rising, not on a month-on-month basis but according to a less volatile quarter-on-quarter comparison. Sales compared with August. Volumes between July and September were 0.5 per cent up on the previous three months, and the Retail Consortium described a "small but encouraging improvement" in shop sales compared with August.

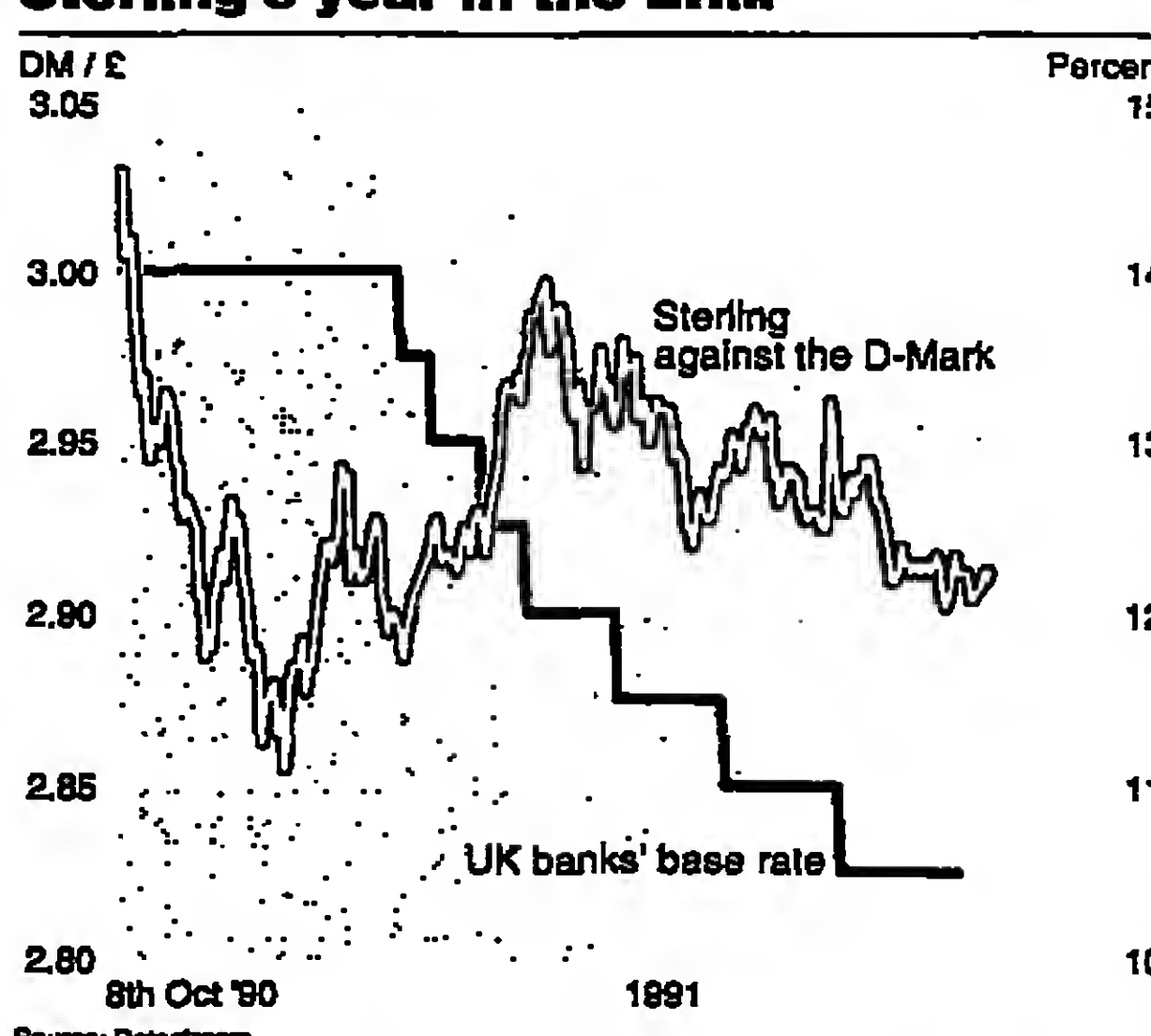
In October, in between celebrations of sterling's first year as a member of the European exchange rate mechanism, the government spotted "unmistakable" signs that the recession was ending.

Employment officials judged that the monthly increase in unemployment averaged 40,000 a month, slashing their estimate from a previous 60,000. They perceived that the released figures showing a rise of 35,700 in September - the smallest for a year - which took the total almost to 2.5m.

Better still, the UK inflation performance over the summer and autumn enjoyed comparisons with Germany's, falling to an annual rate of 4.1 per cent in September, after double-digit levels a year earlier.

Still, the bad news has not entirely gone away in the economic spring of autumn 1991. The unemployment figures came shortly after rumours - which emanated from the joint World Bank/International Monetary Fund meeting in Bangkok - that Mr Norman Lamont, the chancellor, was to delay the annual Autumn Statement because the economy was still in poor shape.

Sterling's year in the ERM



Source: Datastream

8th Oct 90

1991

UK banks' base rate

Percent

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12

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THE UK 2

FEW BRITISH bankers can remember a more difficult time for their industry. The UK recession has forced record levels of bad debts on them. To add insult to injury, they have also faced a barrage of criticism of their trading practices from politicians and consumer groups.

In the first half of the year, all the big banks suffered sharp falls in pre-tax profits. Indeed, Midland became the first bank in modern times to suffer a loss due to problems in its domestic operations - £71m before tax.

It is not the first of the UK banks to disclose a loss since they began to lift the veil on their operating performance almost 20 years ago. But when banks made pre-tax losses in the 1980s, it was almost always as a result of their exposure to the troubled economies of less developed countries.

A good indicator of the scale of the problems in the UK market is to compare the banks' provisions against bad and doubtful UK debts with their total domestic lending. This ratio was 2.4 per cent on an annualised basis in the first half of 1991, up from 2 per cent in the second half of last year.

"This is far higher than anything witnessed in the early 1980s recession," said Peter Tooman, analyst at the brokers, UBS Phillips & Drew. No data is available for the 1974-75

Banks have suffered a squeeze on margins in the past 10 years, which shows no signs of abating

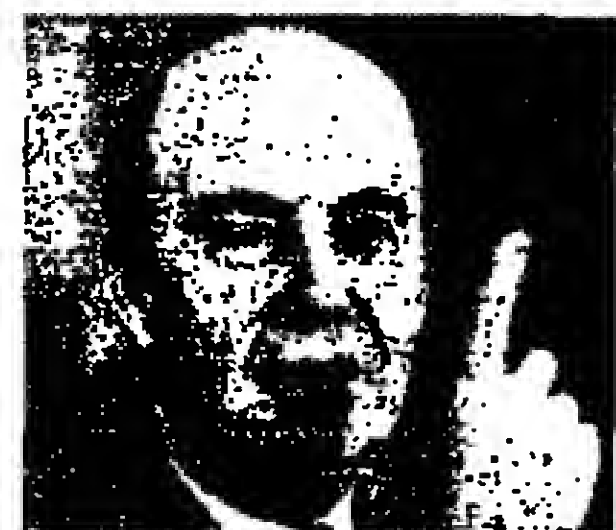
Economic pause swells bad debts

property crash and recession, but Mr Tooman believes today's experience may be comparable with what happened then.

The main reason for the surge in bad debts is that a sharp slow-down in economic growth has followed hard on the heels of a boom in borrowing by both companies, especially small and medium size businesses, and individuals. But the size of the lending losses is in part a reflection of the banks' poor credit controls.

"It is difficult to generalise on whether bad debt levels should now improve for the banks," commented Sir Nicholas Goodison, chairman of TSB Group and of the British Bankers Association, the trade association of all UK banks. "There is no real sign of the economy reviving at the grass-roots level."

"1992 will remain difficult," commented Brian Pitman, chief executive of Lloyd's Bank. However, Lloyd's was the only UK bank whose provisions against bad debts were lower in the first half of 1991 than in the second half of 1990.



Brian Pitman has never seen so many personal bad debts

Banks' bad-debt levels will depend in part on where they are most heavily represented. The recession began in the South of England and has gradually been moving north. So the Scottish banks and those English ones more exposed to the Midlands and north, such as Midland and Barclays, may continue to suffer from a rising bad-debt charge.

However, the bad debt peak for National Westminster, which collects bad-debt figures centrally every month, was probably in May, according to analysts.

Along with the regional trend to bad debts, there is also

a sectoral trend. A handful of big companies with excessive borrowings, such as Polly Pock and Coleroll, ran into financial difficulties early in the recession. Then small companies were hit hard. Indeed, the bulk of bad-debt provisions have consisted of individual charges of less than £500,000.

More recently, consumers have been having increasing difficulty making payments on mortgages and personal loans. With unemployment likely to continue rising well into next year, consumer bad-debt charges are almost certain to continue increasing, according to Chris Elliott, an analyst at the brokers, Warburg Securities. "There are more personal bad debts than we have ever seen," said Mr Pitman.

The longer-term prospects for the banks, after the recession, are also troubled. In traditional banking, there has been a squeeze on margins over the past 10 years which shows no signs of abating.

When lending to big companies, margins have widened slightly from the mid-1980s levels of the late 1980s. Com-



Sir Nicholas Goodison, chairman of the Bankers Association, sees no sign of the economy reviving at grass-roots level

petitive pressures have lessened as the big US and Japanese banks have reduced their activity in this international market. However, most UK banks complain that the margins are still too narrow.

There has been a more substantial widening in the margin on loans to small and medium-sized businesses. Indeed, this margin increase, around 1/2 percentage points on average, prompted accusations from small companies that the banks were acting as a cartel.

The Office of Fair Trading and the British Treasury have concluded that there is no such cartel. However, they con-

cluded that the banks had been treating their small business customers insensitively.

Although lending margins may be improving slightly, the overall margin continues to be under pressure, because of the rising cost of deposits. There has been a strong trend of customers taking advantage of the relatively new interest-bearing cheque accounts. In other words, banks are paying more for their funds.

So banks are trying to cut their overheads and derive income from selling a wider range of financial services. The ratio of most big banks' non-interest costs to

detailed knowledge of their local communities and valuable lending experience.

So at the same time, the banks are trying to increase their income from non-traditional sources, such as the sale of pension plans and life insurance. Like many international banks, they are forming links with life insurers. In the two latest deals announced this autumn, Abbey National bought Scottish Mutual, and National Westminster Bank formed a joint venture with Clerical Medical.

Such diversifications may be profitable, but Mr Elliott believes the banks must tackle a problem much closer to home. "The key problem for them is how much people dislike them," he said.

He estimates that banks spend more than £30m a year on advertising. Yet a recent survey by Which?, the Consumers' Association magazine, demonstrated that individuals have a low opinion of them.

Nor does a high level of over-heads buy popularity. The banks with among the worst ratios of costs to income, Midland and National Westminster, experienced the highest levels of customer dissatisfaction with their services - a banking version of being caught between Scylla and Charybdis.

Robert Peston

Insurance: in the wake of severe losses...

Lloyd's capital base is under scrutiny

LONDON'S INSURERS are still assessing the long-term impact of the wave of catastrophe and other heavy insurance claims which shook the market in the late 1980s.

All sectors - including the 200-plus subsidiaries and branches of international companies based in London - have been affected. But Lloyd's of London, the constellation of insurance interests that generated just over half the market's £10bn-plus premium income in 1990, has been the worst hit.

Losses have helped to focus minds on the shortcomings of its capital base - the system whereby individual members, or Names, back underwriting with their personal assets - and the need for reforms to its complex structure. Losses have come from three directions:

■ In relatively quick succession, European windstorms (January 1990) provided London with three of its heaviest ever losses, amounting cumulatively to at least £10bn. In addition, there has been a succession of industrial disasters, including the Piper Alpha oil-rig explosion (July 1988), the Phillips Pasadena refinery explosion (November 1989) and the Exxon Valdez oil-spill (March 1989).

At a time when competition has driven premium rates to very low levels, the losses have shattered both Lloyd's syndicates and companies that specialise in the high-risk catastrophe reinsurance market. Many of the worst-performing of Lloyd's 400-plus syndicates in the 1988 year - for which a £510m loss was reported in June - specialised in this sector of the market.

Losses such as those managed by Feltrim Gooda Walker, and Rose Thomson Young - suffered insurance losses of over 100 per cent of their premium capacity (the amount of premium income they are permitted to underwrite), and their Names have provided Lloyd's with some of its most vociferous critics.

Losses could prove to have been even worse in 1989 and 1990. Last month, the managers of Bollinger syndicates 216 and 383/4 - both of which are exposed to hurricane Hugo and

the January 1990 storms - said they faced losses of over £50m. Among the companies, Mercantile & General Re, the reinsurance arm of the UK's Prudential Corporation, reported that its underwriting losses in 1989 and 1990 were sufficient to wipe out 10 years of profit.

■ Losses from US liability insurance represent something of a running sore for London insurers. Claims from this so-called "long-tail" insurance business - which emerge sometimes many years after the inception of an insurance policy - are much higher than anyone could possibly have predicted when the business was first written as long ago as the 1940s. And losses are continuing to rise as a result of court awards to asbestos victims and federally-ordered

The number of syndicates is expected to fall, possibly to 250, compared with 354 this year and more than 400 in 1990

clean-ups of polluted sites. In a number of cases, losses from these sources can still not be assessed, which means that some syndicates are unable to close their accounts for a number of years in the early and mid-1990s. Several thousand Names who want to leave Lloyd's are effectively trapped in the market as a result of their membership of syndicates with such "open years".

Last year, large marine syndicates, such as Wellington, Secretan and Chester, reported big increases in their reserves against liability losses. Charles Surge, co-author of Lloyd's League Tables, the annual guide to the Lloyd's market, says that "1990 witnessed a disturbing increase in pollution activities" at Lloyd's syndicates.

■ To make matters worse, losses in the emerging standard commercial business - such as the insurance of ships and their cargoes - written in the last two to three years, partly because competition there has depressed rates to unprecedented levels. A number of syndicates exposed to neither catastrophe nor US lia-

bility could report losses of up to 20 per cent of their premium capacity when they report their 1989 results in June.

Already the losses are producing some restructuring - especially at Lloyd's, where the number of syndicates is expected to fall sharply next year, possibly to as few as 250, compared with 354 this year and more than 400 in 1990. Market leaders are anxious to promote these changes - as well as rationalisation among the 100-plus agencies which both manage syndicates and handle the affairs of Names - in order to reduce the costs of doing business and to promote efficiency.

Since early this year, a market taskforce under the chairmanship of David Rowland, head of the brokers, Sedgwick, has been meeting, to conduct a wide-ranging examination of the options. One of its main goals is the restoration of stability to the market's capital base, in order to stem the exodus of Names and reduce the damaging impact of a tide of litigation involving disillusioned Names and their agents. At many as 5,000 of the 26,500 Names could leave this year, reducing the market's capital base of £11.4bn by 10 per cent.

Litigation is concentrated in the UK, where more than 2,000 Names are involved in legal actions, while in North America four actions are currently under way, where Names' concerns have dovetailed with concerns among some insurance buyers about the solvency of a minority of syndicates.

Standard & Poor's, the US credit-rating agency, announced last month that it intended to monitor the financial records of each syndicate at Lloyd's, in response to concern from its customers.

Until now, the solvency of individual syndicates has been seen as inseparable from the Lloyd's market as a whole, and insurance buyers and regulators have tended to view the prospects of individual syndicates in the context of the market as a whole.

The taskforce has examined a series of possible reforms, ranging from the abolition or modification of the principle of unlimited liability of Names, to the possible introduction of corporate Names to Lloyd's.

Richard Lapper



Gone with the wind: London's gales also blew profits away

The securities industry must get to grips with a range of problems that are proving difficult

Delays to Taurus keep costs high

LONDON MAY like to claim that it has become the hub of Europe's securities markets, but it certainly isn't finding the going easy.

Questions over its trading infrastructure and practices, change has been planned for 10 years, though it has only become a serious issue in the past three.

An automated settlement system, known as Taurus (Transfer and automated registration of uncertificated stock), was expected originally to have been introduced this autumn. This date was put off until May next year, due in part to delays in developing the technology, and in part to the need to introduce complex legal changes to allow the system to operate under the UK's 40-year-old system of company law. It has now been delayed again, to April 1993 at the earliest.

Delays in automation also mean that the subject of market clearing, the UK's antiquated "account" system, under which share trades carried out within a given two-week period are (theoretically) all settled on a single day, 10 days after the period ends. Rolling settlement (where all trades are settled a set number of days after they take place) will follow some time after Taurus - and reaching the target of settlement three days after a trade laid down by the Group of 30, a think-tank of former economic policy advisers, will take even longer.

On top of the extra costs and risks, the delays to Taurus antagonise investors for other reasons. The UK government said 18 months ago that it would only abolish its 0.5 per cent stamp duty, or turnover tax, when Taurus was launched (it had already cut stamp duty from 1 per cent). Each delay in Taurus therefore means a further delay in cost savings.

For institutions, stamp duty is the most significant dealing cost. Commission rates fell to a standard 0.2 per cent after fixed commissions were abolished at Big Bang, and a third of trades are now carried out without commission.

lengthy and convoluted process of confirmation and settlement takes place, which investors and intermediaries find both time-consuming and expensive. For UK shares, change has been planned for 10 years, though it has only become a serious issue in the past three.

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For institutions, stamp duty is the most significant dealing cost. Commission rates fell to a standard 0.2 per cent after fixed commissions were abolished at Big Bang, and a third of trades are now carried out without commission. Average dealing spreads quoted on *Seag* (the difference between the price at which market makers buy and sell shares) add a further 0.5 per cent or so each to the costs of both buyers and sellers, though in practice many institutions negotiate better prices than those quoted on screen.

If trading infrastructure remains a cause of concern, trading practices have also been the subject of much criticism. After a battle with the UK's anti-trust authorities, the Stock Exchange has been allowed to retain its rule which allows details of large trades to be kept from the market for 90 minutes. This is designed to allow marketmakers to work out large positions before competitors are alerted to their existence.

This apparent lack of transparency has come under intense attack from continental Europe. In London, meanwhile, market participants claim that the 90 minutes should be extended. The London argument received support from an unlikely direction this autumn: the US Securities and Exchange Commission agreed to allow the National Association of Securities Dealers, which runs the US over-the-counter share market, to reduce the transparency of its proposed London-based Nasdaq international system, to allow it to compete more effectively with SEAG.

When the closure of large trades remains controversial, dealing in less liquid stocks has also hit difficulties. The UK recession has exposed what critics claim is a weakness in the London market system dating from five years ago: the inability to handle trades in smaller companies. The difference between buying and selling prices in these companies has widened drastically, to an average of 10 per cent. The Stock Exchange is now considering introducing a system of sole traders for these illiquid stocks, under which a single broker/dealer would be appointed to each company. By concentrating orders, this would reduce dealing spreads, it is claimed.

Beneath many of these problems lurks the biggest headache for London's securities markets: overcapacity. The Big Bang reforms brought foreign banks flocking to London, and despite withdrawals since, there is still too little business to go round. Last year, members of the London Stock Exchange lost £350m between them. This came even after they had cut back drastically on excessive cost bases built up at the time of Big Bang.

Stronger stock markets this year mean that returns for intermediaries have been better. However, excess capacity remains a problem which makes the London securities markets an unattractive place for most participants in the foreseeable future.

Richard Waters

Fund management: foreigners who bought UK firms were seeking synergy. Did they find it? asks Norma Cohen

Little scope seen for further acquisitions

IF THERE is one aspect of finance in which the UK holds an international lead, it is fund management. Indeed, the one area where British financial services firms have made inroads into the closed Tokyo markets has been trust banking, where they have been able to capitalise on their fund management skills and attract pension fund business.

Thus, when Bank in Lichtenstein became the first foreign firm to acquire a large UK fund manager, CIT Management, in March 1989, the strategy was evident. A string of others quickly followed. In April, Societe Generale acquired Touche Remandt; and in July, Germany's Hypo Bank bought a 50 per cent stake in Foreign and Colonial Management. Then, in March 1990, Banque Indosuez acquired Gartmore; and in May Credit Commercial de France bought a 25 per cent stake in Framlington with an option to buy another 25 per cent.

However, there has not been a single significant purchase of a UK fund manager by a foreign firm in the past 18 months, and analysts are sceptical about whether there is much scope for further acquisition in the near future. They point to the dearth of available purchases, the price it would be necessary to pay, and uncertainty about the strategy which prompted the acquisition in the first place.

First, the foreigners are hoping to realise some synergy between the UK fund managers' skills and their own distribution base, which could lead to a new range of services being sold to existing or new customers.

"They don't have a lot of equity management expertise on the Continent," said Philip Gibbs, financial services analyst at Barclays de Zoete Wedd.

Second, the buyers have all been banks that were anxious to

reduce their exposure to traditional lending activities and build up low-risk, fee-based activities.

The second goal, by all accounts, is a more reasonable one. Analysts note that Banque Indosuez's acquisition of Gartmore, for instance, must have proved extremely profitable. In

The buyers have been banks anxious to reduce exposure to traditional lending activities and build up low-risk activities

four of the past five years, it has outperformed the industry average, thus enabling it to attract new pension fund business.

However, much of the judgment about whether the acquisition can be viewed as a cash-cow depends on the price paid at the outset. David Poutney, industry analyst at UBS Phillips & Drew, argues that

current prices for fund management firms are far too high to justify any further purchases.

Shares in the UK's largest fund manager, Mercury Asset Management, are trading at 1.5 to 1.8 per cent of earnings. "Why would anyone want to pay more for a lesser light?" asks Mr Poutney. Meanwhile, 75 per cent of Mercury's shares are held by SG Warburg, rendering it bid-proof.

However, even the relatively high prices might be justified by potential fee income. UK fund managers charge their clients substantially larger fees than their counterparts in other countries. Unit trust fund managers, for instance, charge 100 to 150 basis points of funds under management, compared with 40 to 60 basis points in the US.

But is the synergy strategy realistic? Analysts say the lure is still out, though most are cynical. "The theory is that the banks will be able to use their

brand names and their customers' naïveté to get new business out of it. I'm quite sceptical myself," said Martin Green, analyst at Smith New Court Securities.

Mr Green and other analysts point out that many of the European and US banks that rushed headlong into the London market to acquire securities firms realised precious little synergy out of those acquisitions. Indeed, many lost their proverbial shirts. Also, the synergy that drove US firms to develop financial conglomerates on their own turf in the mid-1980s has proved a great disappointment to many of them.

The only available targets are smaller, less profitable fund-management firms which have little attraction

"The European view of things has been affected by 1992-itis," said Mr Poutney, explaining the recent bid for continental banks to make UK acquisitions of any sort.

But in retrospect, the prices the Europeans have paid for their securities acquisitions have been too high.

Meanwhile, the analysts ask, what is there to acquire? "The last thing you want to be in the UK is a bit-player," said Mr Poutney. "You've got to go for critical mass, and in the UK that's a minimum of £10bn in funds under management."

run fund manager for sale would prove a tricky business. And there is no point in launching a contested bid for a fund manager.

It's not an assets business. It's a people business," said Mr Andrew Ripper, analyst at Smith New Court. Any hostility in the bid process would cause the manager's most valued staff to depart quickly, sharply deflating the value of the acquisition.

Thus, the only available targets are smaller, less profitable fund-management firms which have little attraction. "Anyone with a good brand name is going to launch their own operation," said Mr Poutney. "Why buy a tin-pot operation?"

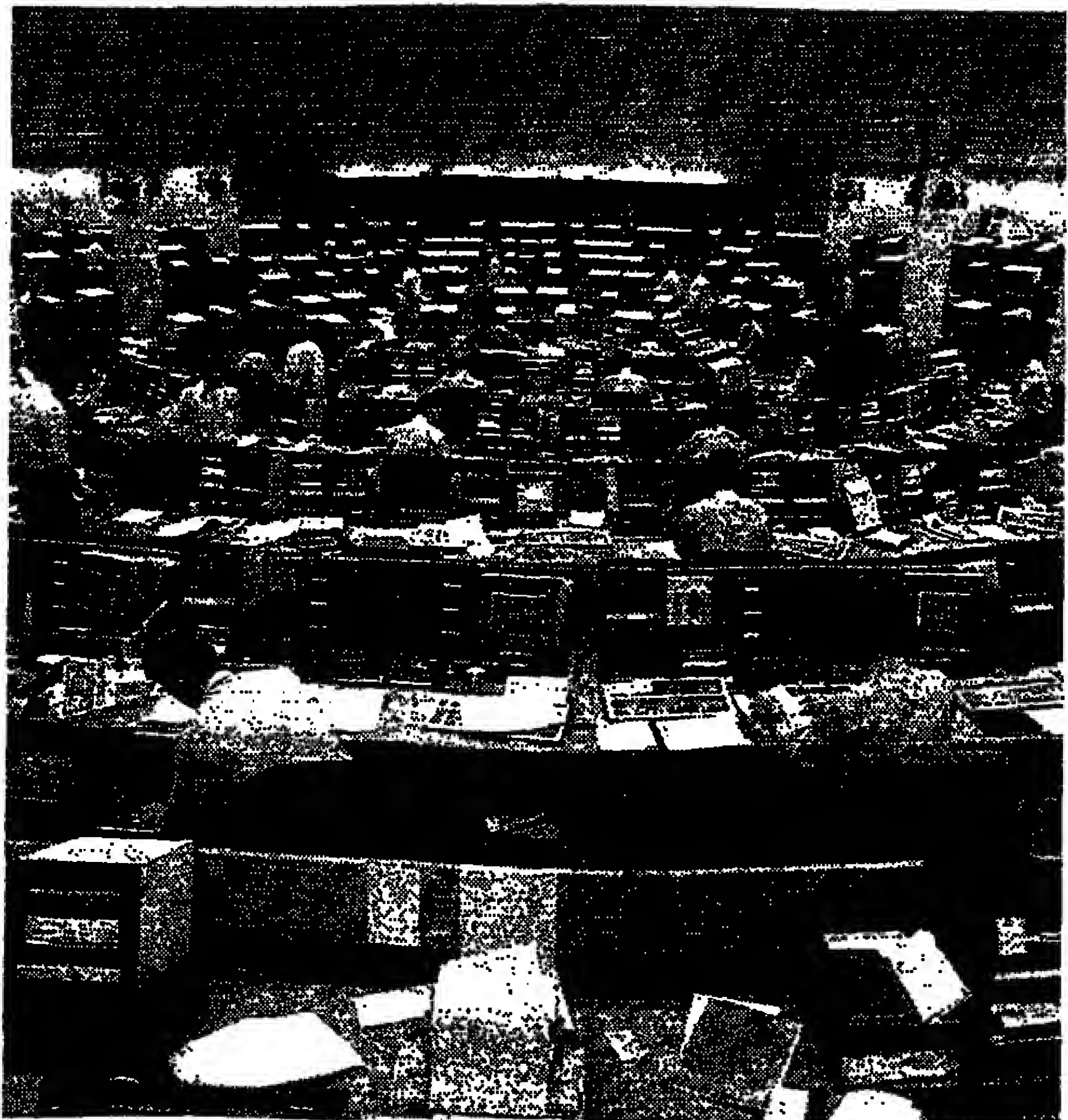
However, he speculated that Kleinwort Benson, a merchant bank whose fund management arm has £10bn in its portfolio, could be a target. Banque Nationale de Paris bought a stake earlier this year, though it remains to be seen whether it will seek more.

EUROPEAN FINANCE AND INVESTMENT

THE UK 3

Foreign exchange: London is dominant, and the ERM offers still more business

End of controls provides a lift



London, with many banks specialising in currencies, is the European currency-trading centre

MORE MONEY changes hands each day in currency transactions than in any other market, and London remains the biggest centre for foreign exchange dealing.

But the city also faces challenges, with the move towards European Monetary Union and difficulties as some of its largest players – the large multinational banks – see their credit ratings slip.

London's pre-eminence in foreign exchange is underlined by central bank surveys. The last official report was in 1989, by the Bank for International Settlements. It estimated a global net daily turnover in the currency markets of \$640bn. Of the top three foreign centres, the UK has a clear lead with \$187bn changing hands every day, compared with \$138bn in the US and Japan's \$132bn.

In a slightly more recent study, the Financial Markets Group at the London School of Economics tracked currency quotes on Reuters screens, and also found that the London foreign exchange market had the largest share of currency quotations. New York was in second place and Singapore third.

London established its position as a leading foreign exchange centre in the late

Foreign exchanges market turnover (\$bn)	
	Net monthly total
United Kingdom	3,740
United States	2,500
Japan	2,300
Switzerland	1,140
Singapore	1,100
Hong Kong	931
Australia	570
France	520
Canada	300
Netherlands	280

Source: Bank for International Settlements, 1989

1960s, when dollars flowed out of the US and found a home in the less regulated UK market. The early dismantling of the UK's foreign exchange controls in 1979 and the financial services boom of the mid 1980s provided further areas of growth.

In more recent years, Europe has been a new area of growth. The gradual lifting of exchange controls within the European Community and the growth of

trade inside the EC has created a boom in European currency dealing. London, with its large number of banks specialising in currencies, has been able to draw in the burgeoning market in Deutsche Marks and establish itself as the centre for European currency trading.

But London's business is still primarily in dollars. The most active rate remains the dollar/D-Mark, followed by dollar/yen, dollar/sterling and dollar/Swiss franc. As the hub of world dollar trading, London has been able to attract US banks into the City and persuade them to locate their main Treasury operations there.

The problems in the US banking system and well publicised downgrades in their credit ratings have caused difficulties for the US banks in the London market. Customers are looking for more carefully at the credit ratings of the banks they give their currency business to. Foreign exchange managers say they now spend far more time looking at the balance sheets of other banks.

US foreign exchange managers admit that they have suffered because of the bad debt problems of their parent banks in the US. The main beneficiaries

have been those banks with stronger credit ratings, such as Swiss, Japanese and UK clearing banks.

In spite of these difficulties, the leading US commercial banks retain a strong presence in the London market with the likes of Citicorp and Chemical Bank still among the largest players. Indeed, while business in the London currency market is still expanding it is being concentrated in fewer hands.

Developments in Europe have accelerated this trend.

To be a serious player in today's London market, a bank or securities house needs to be able to offer a whole range of currency facilities to its customers. Many banks have developed sufficient expertise in European currencies to be able to attract continental European business.

At Barclays Bank, a desk of seven people specialising solely in executing its foreign currency business through London.

"London has a reputation for professionalism," he says. "The blue chip European businesses are being serviced out of London and increasingly the continental European capitals are only attracting the second and third tier companies. London is becoming more European."

In the last two years, London has begun to dominate the important market in cross rates (Mark-franc, Mark-peseta, Mark-lira, Mark-yen, and of course sterling-Mark), while Paris, Frankfurt, Milan and others are developing into niche players, concentrating on their national currencies.

One sign of this is the important business of intervention which central banks have to conduct when their currency is threatening to break out of its ERM band. Continental European central banks are beginning

discreetly to use the London market for currency management.

This has caused more than just a few eyebrows to be raised in some of the continental European currency markets. But London's ability to offer competitive quotations, its professionalism and ability to handle the largest orders attracts the central banks.

Having established itself as the centre for European currency dealing, London is well placed to capture a decent-sized slice of business which comes from new entrants to the ERM. Some banks are already developing expertise in the Portuguese escudo, expecting the Lisbon government to apply for ERM membership in the near future.

The other currency which could take-off in the 1990s is the Ecu. Foreign exchange managers say the Ecu is increasingly becoming a currency in its own right with some companies beginning to invoice in Ecu's and also using it as a hedge against European currency transactions.

Ecu-Mark and Ecu-sterling have been the more popular rates, although Ecu-yen, Ecu-Swiss franc and Ecu-dollar are beginning to grow in popularity. Some London banks already have traders who specialise solely in the Ecu, and City practitioners believe London has replaced Brussels as the centre for Ecu trading.

Apart from the immediate concerns about the impact of the credit crunch on US banks, there are other clouds on the horizon for London. If ERM currencies eventually become fixed (as a step towards a single currency) business will contract. However, there is much scepticism in London about whether plans for close monetary integration will work.

The other main worry is location of the operational headquarters for a European central bank. London dealers believe the City is the obvious home for an independent central bank, but fear the UK's reluctance towards greater European political and monetary union may jeopardise its chances of success.

Jim McCallum

International capital markets

Recession spurs bonds

to find a market price. The price-fixing mechanism is designed to stop participants in a deal from selling the bonds back to the lead manager at a discount to issue price. This practice of "dumping" could lead, if participants lost their nerve, to a new issue trading at a substantial discount to the issue price – eroding or wiping out underwriters fees.

Companies are looking increasingly to tap long-term funding from outside the banking system

More important, "dumping" also drove institutional investors away from the primary market. Fund managers preferred to wait for the price of new issues to fall below issue price before committing funds. Hence the fixed-price re-offer was aimed at restoring the faith of institutional investors in the primary market and restoring the profitability of new issues. It has partially achieved both objectives, but not without controversy and casualties.

In July, the Office of Fair Trading, the UK competition watchdog, asked seven leading Eurobond firms to explain

their syndication practices – following reports of informal meetings among senior syndicate officials.

The replies were satisfactory, and the OFT decided that it had no grounds to mount a full restrictive trade practices investigation.

However, the episode did serve to highlight the divergent interests of the big firms, reliant on institutional investors, and the smaller, retail-based houses which never wanted the introduction of the fixed-price re-offer mechanism in the first place.

The interest of the OFT was not welcomed by the big players, not least because it diverted attention away from other regulatory battles which the Eurobond market is fighting. Most important, the highly-regulated international bond market is trying to defend its position within the new regulatory framework being evolved by the European Community.

The biggest fear is that the draft Investment Services Directive, currently before EC member governments, could include a provision that all trading of securities should take place on "regulated markets" – a move favoured by the French and other Mediterranean governments.

The Eurobond market would not count as a regulated mar-

ket, primarily because it has no listing requirements. Hence it would either have to introduce new regulations, quite contrary to its free-wheeling nature, or see business retreat on to national bond markets.

The UK and German governments, backed by the European Commission, do not want legislation which damages existing Eurobond business. The UK government wants to maintain London's position as the centre for Eurobond market. It has said that it will oppose EC legislation which might force firms to move to off-shore centres.

While the Eurobond market enjoyed something of a feast, the loans market has slumped. In the first half of the year, \$98bn new syndicated loans were arranged, against \$194bn in the first half of 1990. Activity has not picked up since.

In part, low demand for syndicated bank credits is the result of recession. Despite fears that companies are facing a credit crunch, with banks unwilling to lend, demand for debt finance has in fact been very low.

Some relief has come from sovereign borrowers. For example, Kuwait and Saudi Arabia have arranged \$50m and \$4.5bn syndicated credits respectively in the aftermath of the Gulf war.

debt, other companies have been replacing complex syndicated loan facilities with a series of bilateral arrangements. Recent examples include BP, which reduced the number of banks it deals with from 87 to just 27.

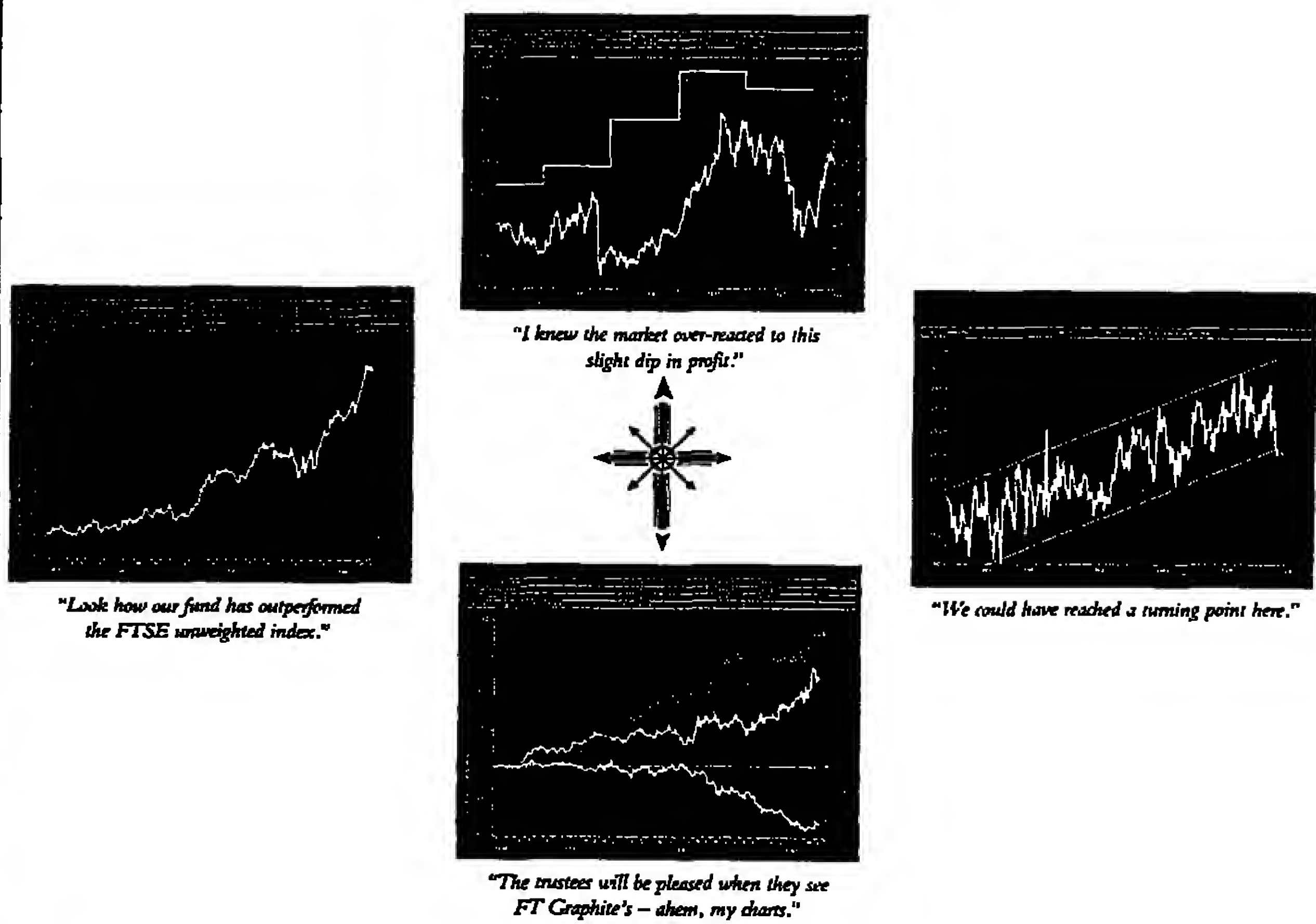
There are also signs that companies are looking increasingly to tap long-term funding from outside the banking system altogether. The international bond market is one option, but only for the largest, highly-rated companies.

Smaller companies, such as Pilkington and NRC, have turned to private placements of bonds, with US pension funds and insurance companies, for example.

Hence the low demand for syndicate bank finance is not just attributable to recession. There are signs that companies are changing borrowing habits, and international banks will have to adapt.

Simon London

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A FINANCIAL TIMES INFORMATION SERVICE

Roland Rudd

PARTICIPANTS in the London-based international capital market have had a testing year. While aggregate borrowing totalled \$300bn during the first eight months of the year, up 14 per cent on the same period of 1990, business has been spread unevenly.

The international bond market has probably emerged stronger, but the syndicated-loans and commercial-paper markets have slumped.

The sheer weight of activity in the bond market can be ascribed to the recession. As the US and other major economies have entered recession, with interest rates falling, bonds have been an attractive investment on cyclical grounds. Hence new-issue volume totalled \$178bn to the end of September, up from \$122bn on the same period of last year.

In addition, the leading Eurobond firms have established techniques for syndicating new issues which have increased the number of profitable deals. There is little doubt that the first half of 1991 was one of the most profitable periods in the history of the Eurobond market.

In particular, the fixed price re-offer technique has been introduced, giving the lead manager of a Eurobond issue greater control over a new issue.

The lead manager of a Eurobond issue sets the price at which other underwriting firms can sell the bonds to investors. Only when the lead underwriter is convinced that the majority of bonds are safely in the hands of end-investors are the bonds allowed

Corporate finance

Hostile bids decline as the 1980s lessons are absorbed

THE CITY never really believed Lord Hanson when he told the FT in an interview last May that he was no longer interested in making hostile bids.

A few weeks after taking a 2.8 per cent stake in Imperial Chemical Industries, he said: "The one thing we don't want to do is a big hostile bid, anywhere. We don't want to do it in America, we don't want to do it here... The hostile takeover days are over."

Perhaps the chairman of Hanson, the Anglo-American conglomerate, hoped that his forecast would not prove accurate. But it has – and not only for Hanson, which appears to have given up any hope of making a hostile bid for ICI. According to the FT's Mergers & Acquisitions database, there have been 91 UK public bids since the beginning of May until the end of October. All but eight of them were friendly.

Brian Bollen, editor of Mergers & Acquisitions International, believes the last few months have confirmed a trend of the past year: "The glory, glory days of big takeover deals are now over. And it is questionable whether they will ever return. Most of the players involved in the eighties have learnt the painful, but valuable, lessons from the last spate of big deals, which resulted in companies leveraging themselves up."

The spotlight over the past year has shined on the Continent. Goldman Sachs, which has cornered the market in defending targeted companies, says that in 1990 around two-thirds of the European bids were based on the Continent, with a third in the UK. In 1987 the reverse was true. Some of the biggest banks based in

London, such as J.Henry Schroder Wagg and Morgan Grenfell, now devote a far bigger share of their resources and staff to work on continental deals.

Nonetheless, that did not stop the UK hogging the takeover limelight recently with three big bids: Hanson's \$581m agreed deal for Beazer, the British housebuilder and US aggregates business; Williams Holdings' \$700m hostile bid for Rascal Electronics; and

The biggest burst of activity over the past year has been the spate of rights issues, which is expected to slow down

BTR's hostile \$1.5bn bid for Hawker Siddeley, the engineering group.

Yet most of the bidders would freely admit that the proposed deals are opportunistic; they are not strategy-driven. As Mr Bollen put it: "It is when the big strategy-driven deals come back that we will know if there is going to be another M&A bull market." If one major food or drinks company, such as Allied Lyons, is bid for, then other major companies in the industry may take action to secure their position.

Derek Higgs, managing director of SG Warburg, believes there is more activity in the UK market, but says people will be disappointed if they expect the "floodgates of activity" to open again. Furthermore, he points out, the banks have no longer got the appetite to underwrite big deals. "Those companies that will be able to raise cash will

still be able to do things, but they are still the exception rather than the rule."

However, Mr Higgs does not expect to see a sudden burst of takeover activity on the Continent. "The UK market is still the most sophisticated, in terms of takeovers, in the world. It is far more predictable in Britain. What odds are there of something big happening in Sweden? While in Germany most of the takeovers are cosy, arranged marriages."

This is not a view shared by Schroders, which believes there will be an increasing number of continental deals. Although many of this year's continental mergers and acquisitions took place without either side hiring an independent adviser, Schroders believes that is about to change.

It also believes that there is significant room for an increase in capacity in most of the continental markets. In Germany, companies are gearing themselves up for opportunities in the eastern part of the country, while the intricate links between Italian banking and business offer opportunities for UK banks to provide independent advice. This was recently underlined by San Paolo's decision to increase its 50 per cent stake in Credito to 90 per cent, based on a valuation by Kleinwort Benson.

In contrast to its prediction of increased continental activity, Schroders believes a higher proportion of prospective UK deals will not come to anything. It is not alone in its view that the mergers that take place over the next 12 months are likely to be based on commercial objectives, rather than financial anomalies, involving companies spotting an undervalued company and then bid-

WORLD STOCK MARKETS

AUSTRIA (continued)				FRANCE (continued)				GERMANY (continued)				NETHERLANDS				SWEDEN (continued)			
High	Low	November 8	Price	High	Low	November 8	Price	High	Low	November 8	Price	High	Low	November 8	Price	High	Low	November 8	Price
3,710	2,210	Austrian Airlines	2,520	549	382	Banque de Cte	513	276	216	Commerzbank	255	41	40	20	118	123	95	Eerste & Free	133
703	540	Creditanstalt P.H.	490	729	514	Bergbau AG	615	251	209	Centrafal AG	218	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
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1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	Deutsche Bank	126	47	40	20	118	244	141	Gambler & Free	242
1,020	650	Erste Bank	780	1,020	650	Brenntag AG	780	1,020	650	De									

[illegible]

● Current Unit Trust prices are available on FT Cityline, call 0636 430000. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-925-2128

Unit	In	Out	Net	Off-Field	Unit	In	Out	Net	Off-Field
Unit	In	Out	Net	Off-Field	Unit	In	Out	Net	Off-Field

[illegible]

● Current Unit Trust prices are available on FT CQline, call 0806 430000. Calls charged at 35p/minute plus VAT, 10p/min. and 48p/minute at all other times. To obtain your free Unit Trust Code Booklet call 071-925-1123

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IRELAND (REGULATED)

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CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

London markets ponder rate cut

Speculation began to mount again last week in the markets that UK interest rates could soon fall by 10 points to 10 per cent but as so often in the past they could turn out to be disappointed.

UK clearing bank base lending rate 10.5 per cent from September 4, 1991

Three months money fell by almost 1/4 point to just over 10 1/4 per cent as dealers began to gear themselves up for a possible rate cut after the release of the October inflation figures on Friday.

With good news on inflation in prospect, the optimists say the government will soon have a chance to cut rates.

At first glance, the currency markets do not appear to stand in the government's way. Sterling's trade weighted index is higher than before the rate cut, while its position as

the third weakest ERM currency is unchanged. However, sterling's index has been boosted by a weaker dollar, which has masked sterling's decline against the D-Mark. Since the last rate cut, sterling has fallen from DM2.64 to DM2.80 and a larger decline was only prevented by Bank of England intervention.

Sterling has also been propped up during the heightened political atmosphere of recent weeks by the UK's higher interest rates. The Bank of England will not doubt have watched with some concern how quickly the French franc, Danish krone and Italian lira all came under pressure after recent modest interest rate cuts.

Despite the good news on inflation, with sterling just above DM2.60 and speculation growing about a rise in German rates, many analysts believe the currency markets will look too nervous for the authorities to risk an early cut in rates.

£ IN NEW YORK

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Forward premium and discount apply to US dollar

STERLING INDEX

Nov 8	Nov 7	Nov 6	Nov 5
100.00	100.00	100.00	100.00
100.00	100.00	100.00	100.00
100.00	100.00	100.00	100.00
100.00	100.00	100.00	100.00

Official rate: Sterling 1.745-1.745

OTHER CURRENCIES

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CHICAGO

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

U.S. TREASURY BILLS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

U.S. TREASURY BILLS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

U.S. TREASURY BILLS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

U.S. TREASURY BILLS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

U.S. TREASURY BILLS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

U.S. TREASURY BILLS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

U.S. TREASURY BILLS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

U.S. TREASURY BILLS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

U.S. TREASURY BILLS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

U.S. TREASURY BILLS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

U.S. TREASURY BILLS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

CURRENCY MOVEMENTS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CURRENCY MOVEMENTS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CURRENCY MOVEMENTS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CURRENCY MOVEMENTS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CURRENCY MOVEMENTS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CURRENCY MOVEMENTS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CURRENCY MOVEMENTS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CURRENCY MOVEMENTS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CURRENCY MOVEMENTS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CURRENCY MOVEMENTS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CURRENCY MOVEMENTS

Nov 8	Nov 7	Nov 6	Nov 5
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745
1.745-1.745	1.745-1.745	1.745-1.745	1.745-1.745

Official rate: Sterling 1.745-1.745

CURRENCY MOVEMENTS

119.83	117.06	121.98	121.82	+ 18.82
154.73	151.98	187.47	158.51	+ 19.53
118.18	116.05	120.28	117.07	+ 9.21
119.13	116.97	121.23	118.72	+ 12.41
193.03	130.84	135.41	158.80	+ 18.39
100.58	98.78	102.38	104.04	+ 14.26

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AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

219 JAMEC 50	294	0.2	0.9	Dec-Jan	1597
213 ELEC 40	102	1.0	8.3	May-Nov	1597
27 WABE	72	-1.0	14.8		1593
1.44 Nighthawks	70		-25.6		1522
27.560 News Sp.	123	-0.8	5.3	Jan-Jul	1606
11.6 WFLA Sp. Top	95		-15.1		1610
40.400 News Group Top	181	5.8	3.1	Apr-Oct	1665
222.440 News Sp. 5	115	-3	0.0174	Aug-Feb	1685
8.9046 NEWS Top	110		0.0174	Aug-Jun	1685
1.44 Nighthawks	70	-2.2	8.6	Feb-Jun	1723
27.560 News Sp.	91		4.1716	Feb-Apr	1723
1.44 Nighthawks	27		3.8200	Jan-May	1728
10.940 News Top	88	-1.4	5.1619	Apr-Nov	1728
27.560 N. A. M. 1 Sp.	91		9.0117	Nov-Feb	1728
120.8 ELEC 50	67	1.3	6.4	May	1749

BUILDING, TIMBER, ROADS - Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ERY AND STORES—Contd

Call	Stock	Price	Wk chg	Last	Dividends
Co Inc					Paid
224	Western Union	97 1/2	1/2	97 1/2	Jan
225	Whiting 10s	97 1/2	1/2	97 1/2	Jan
226	Whiting 10s	97 1/2	1/2	97 1/2	Oct May
227	Whiting 10s	97 1/2	1/2	97 1/2	Jan
228	Whiting 10s	97 1/2	1/2	97 1/2	Jan Aug
229	Whiting 10s	97 1/2	1/2	97 1/2	Jan
230	Whiting 10s	97 1/2	1/2	97 1/2	Jan
231	Whiting 10s	97 1/2	1/2	97 1/2	Jan
232	Whiting 10s	97 1/2	1/2	97 1/2	Jan
233	Whiting 10s	97 1/2	1/2	97 1/2	Jan
234	Whiting 10s	97 1/2	1/2	97 1/2	Jan
235	Whiting 10s	97 1/2	1/2	97 1/2	Jan
236	Whiting 10s	97 1/2	1/2	97 1/2	Jan
237	Whiting 10s	97 1/2	1/2	97 1/2	Jan
238	Whiting 10s	97 1/2	1/2	97 1/2	Jan
239	Whiting 10s	97 1/2	1/2	97 1/2	Jan
240	Whiting 10s	97 1/2	1/2	97 1/2	Jan
241	Whiting 10s	97 1/2	1/2	97 1/2	Jan
242	Whiting 10s	97 1/2	1/2	97 1/2	Jan
243	Whiting 10s	97 1/2	1/2	97 1/2	Jan
244	Whiting 10s	97 1/2	1/2	97 1/2	Jan
245	Whiting 10s	97 1/2	1/2	97 1/2	Jan
246	Whiting 10s	97 1/2	1/2	97 1/2	Jan
247	Whiting 10s	97 1/2	1/2	97 1/2	Jan
248	Whiting 10s	97 1/2	1/2	97 1/2	Jan
249	Whiting 10s	97 1/2	1/2	97 1/2	Jan
250	Whiting 10s	97 1/2	1/2	97 1/2	Jan
251	Whiting 10s	97 1/2	1/2	97 1/2	Jan
252	Whiting 10s	97 1/2	1/2	97 1/2	Jan
253	Whiting 10s	97 1/2	1/2	97 1/2	Jan
254	Whiting 10s	97 1/2	1/2	97 1/2	Jan
255	Whiting 10s	97 1/2	1/2	97 1/2	Jan
256	Whiting 10s	97 1/2	1/2	97 1/2	Jan
257	Whiting 10s	97 1/2	1/2	97 1/2	Jan
258	Whiting 10s	97 1/2	1/2	97 1/2	Jan
259	Whiting 10s	97 1/2	1/2	97 1/2	Jan
260	Whiting 10s	97 1/2	1/2	97 1/2	Jan
261	Whiting 10s	97 1/2	1/2	97 1/2	Jan
262	Whiting 10s	97 1/2	1/2	97 1/2	Jan
263	Whiting 10s	97 1/2	1/2	97 1/2	Jan
264	Whiting 10s	97 1/2	1/2	97 1/2	Jan
265	Whiting 10s	97 1/2	1/2	97 1/2	Jan
266	Whiting 10s	97 1/2	1/2	97 1/2	Jan
267	Whiting 10s	97 1/2	1/2	97 1/2	Jan
268	Whiting 10s	97 1/2	1/2	97 1/2	Jan
269	Whiting 10s	97 1/2	1/2	97 1/2	Jan
270	Whiting 10s	97 1/2	1/2	97 1/2	Jan
271	Whiting 10s	97 1/2	1/2	97 1/2	Jan
272	Whiting 10s	97 1/2	1/2	97 1/2	Jan
273	Whiting 10s	97 1/2	1/2	97 1/2	Jan
274	Whiting 10s	97 1/2	1/2	97 1/2	Jan
275	Whiting 10s	97 1/2	1/2	97 1/2	Jan
276	Whiting 10s	97 1/2	1/2	97 1/2	Jan
277	Whiting 10s	97 1/2	1/2	97 1/2	Jan
278	Whiting 10s	97 1/2	1/2	97 1/2	Jan
279	Whiting 10s	97 1/2	1/2	97 1/2	Jan
280	Whiting 10s	97 1/2	1/2	97 1/2	Jan
281	Whiting 10s	97 1/2	1/2	97 1/2	Jan
282	Whiting 10s	97 1/2	1/2	97 1/2	Jan
283	Whiting 10s	97 1/2	1/2	97 1/2	Jan
284	Whiting 10s	97 1/2	1/2	97 1/2	Jan
285	Whiting 10s	97 1/2	1/2	97 1/2	Jan
286	Whiting 10s	97 1/2	1/2	97 1/2	Jan
287	Whiting 10s	97 1/2	1/2	97 1/2	Jan
288	Whiting 10s	97 1/2	1/2	97 1/2	Jan
289	Whiting 10s	97 1/2	1/2	97 1/2	Jan
290	Whiting 10s	97 1/2	1/2	97 1/2	Jan
291	Whiting 10s	97 1/2	1/2	97 1/2	Jan
292	Whiting 10s	97 1/2	1/2	97 1/2	Jan
293	Whiting 10s	97 1/2	1/2	97 1/2	Jan
294	Whiting 10s	97 1/2	1/2	97 1/2	Jan
295	Whiting 10s	97 1/2	1/2	97 1/2	Jan
296	Whiting 10s	97 1/2	1/2	97 1/2	Jan
297	Whiting 10s	97 1/2	1/2	97 1/2	Jan
298	Whiting 10s	97 1/2	1/2	97 1/2	Jan
299	Whiting 10s	97 1/2	1/2	97 1/2	Jan
300	Whiting 10s	97 1/2	1/2	97 1/2	Jan

ELECTRICALS

[illegible]

ENGINEERING

[illegible]**FOOD, GROCERIES, ETC**[illegible]

HOTELS AND CATERERS

[illegible]

ELECTRICITY

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (MISCEL.) - CONTD.

[illegible]

INSURANCES

[illegible]

LEISURE

8.80 Allmark Leisure Grp...	37	-2.6	8.9	-	-	2575
176.9 Alltours IDp...	221	2.2	1.3	1.7	Feb-Jul	2568
34.3 Alltred Ltd. Sp...	96	-1.0	6.9	14.16	Oct-May	2603
3.57 Alltred Ltd. Drm...	894	-3.1	8.5			2761
0.80 Alltred B...						

30.9 Apr Oct 1853

1853

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*Source: Chief Executive, 19

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of the	11	● Scotia & Williams Sec.	10.5
of the	10.5	Standard Chartered	10.5
of the	10.5	TSB	10.5
of the	10.5	US Bank	10.5
of the	10.5	United Bank of Canada	10.5
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of the	10.5	Western Trust	10.5
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of the	10.5	Windsor Bank Corp.	10.5
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